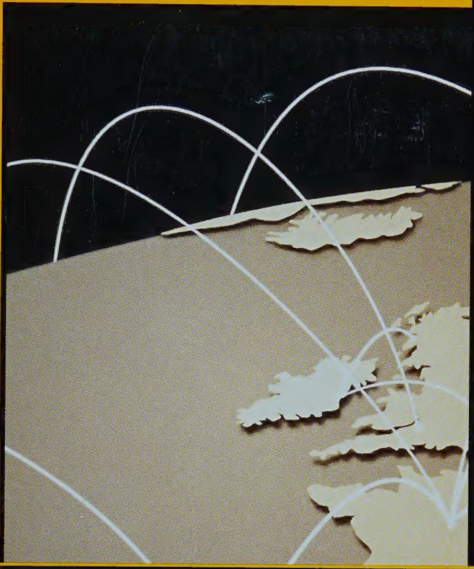
FINNING



Providing Customer Solutions

1996 annual report

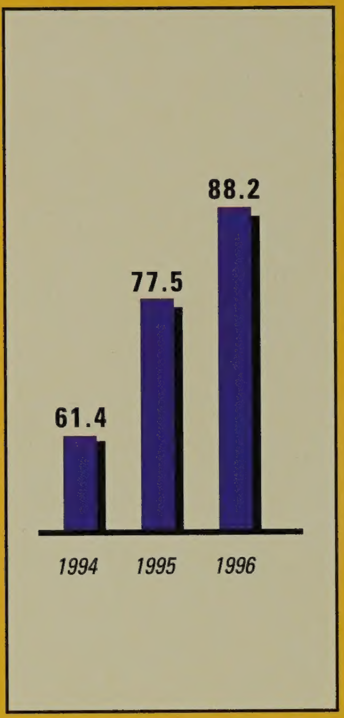
Performance at a Glance

Finning Ltd. is a Canadian-based international corporation which sells, finances and provides customer services for Caterpillar and complementary equipment. Finning is one of the largest dealers in the world for products distributed by Caterpillar Inc.

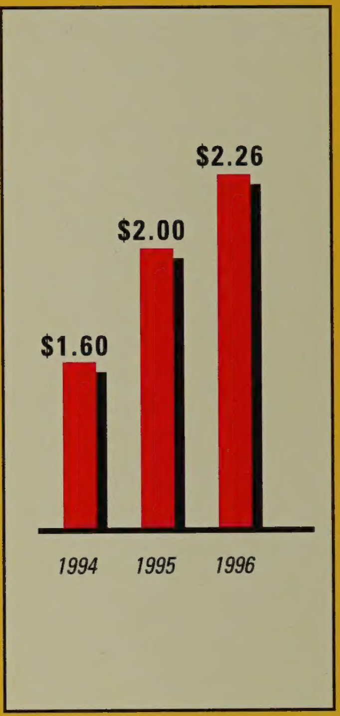
Finning extends financing to its customers through conditional sales, leases and rent-to-purchase contracts. The Company also buys and sells used equipment domestically and worldwide.

Finning's principal markets are located in Western Canada, the United Kingdom, Chile and Poland.

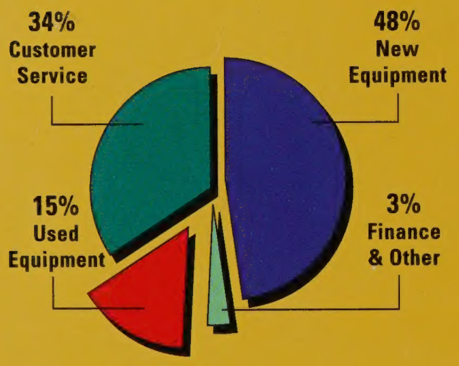
NET INCOME
(dollars in millions)



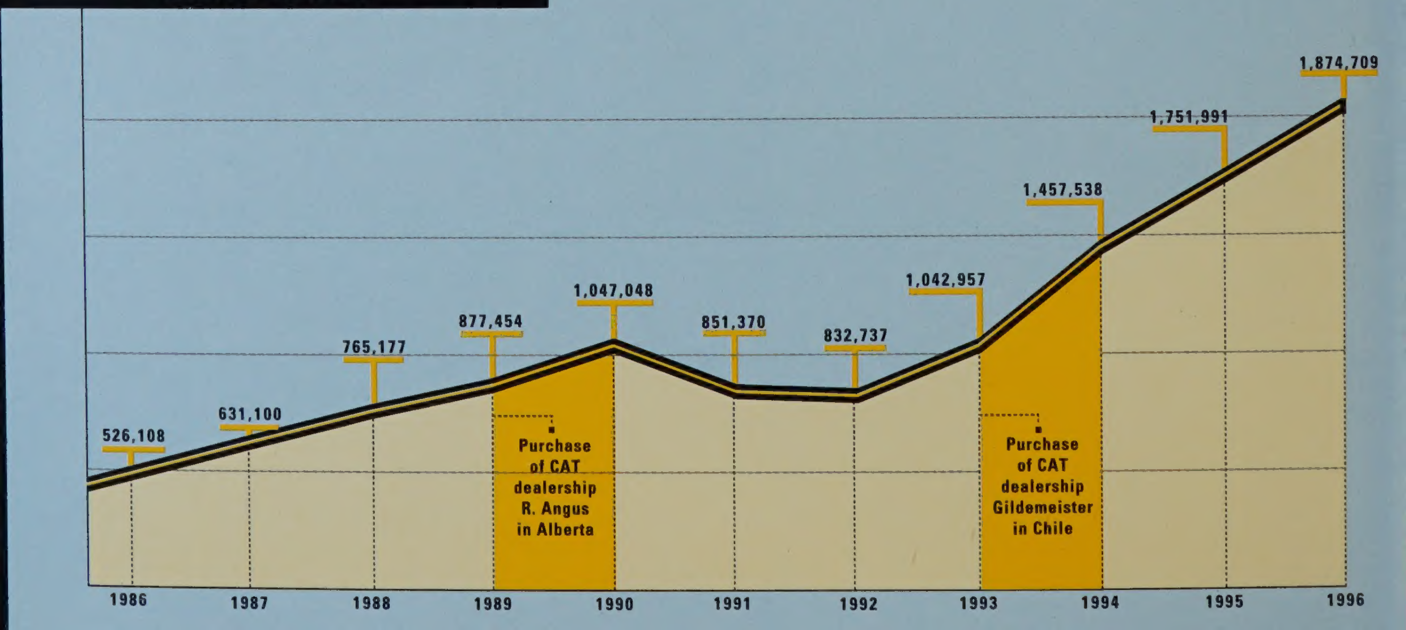
EARNINGS PER SHARE
(in dollars)



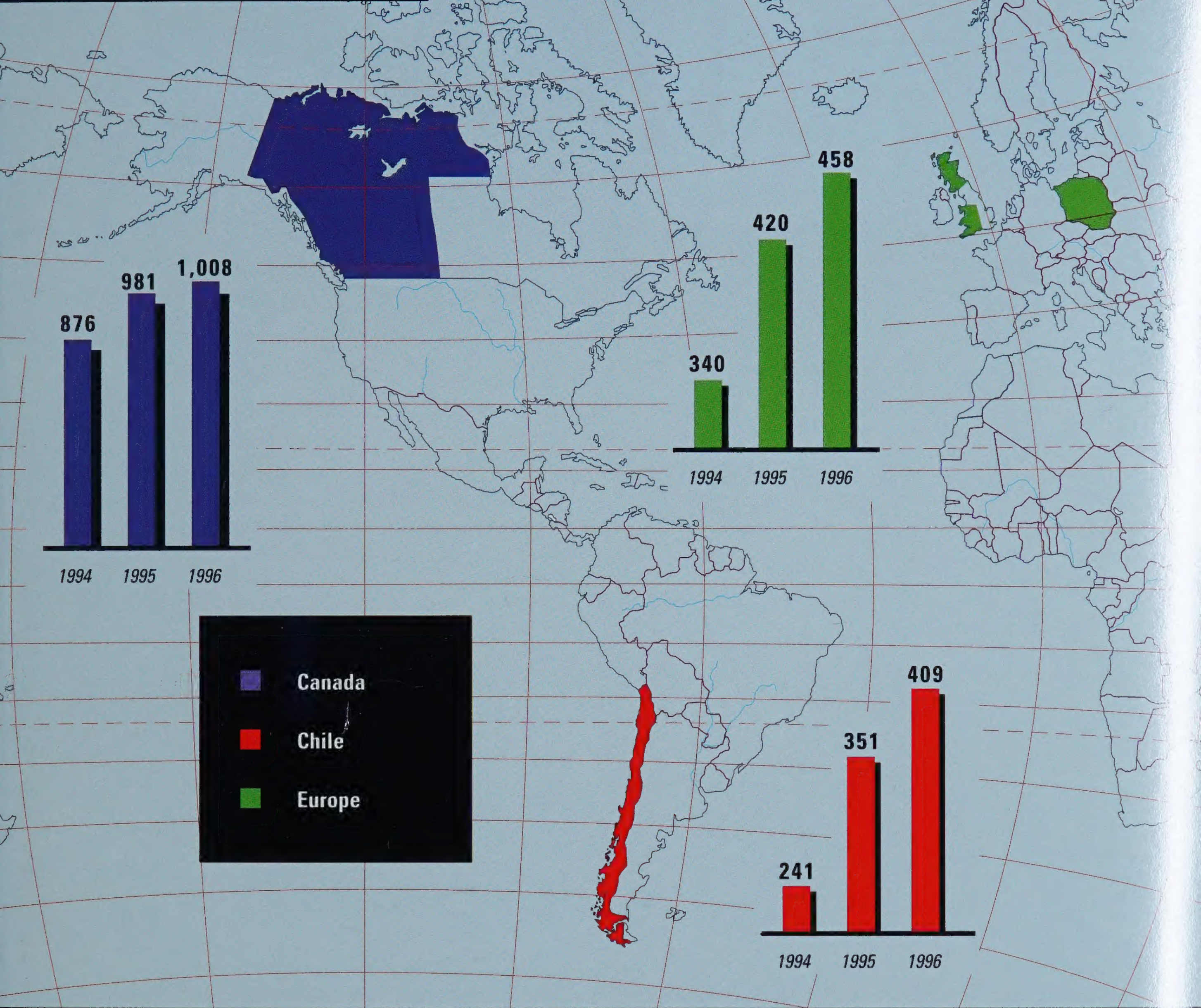
PERCENTAGE OF REVENUE 1996



REVENUE GROWTH
(dollars in thousands)



REVENUE BY GEOGRAPHY
(dollars in millions)



RESULTS IN BRIEF
(dollars in thousands except for per share data)

	1996	1995
Revenue	**$ 1,874,709**	$ 1,751,991
Net income	**$ 88,184**	$ 77,493
Basic earnings per common share	**$ 2.26**	$ 2.00
Net capital expenditures	**$ 29,760**	$ 24,970
Return on shareholders' equity	**16.0%**	16.2%
Net income as a percentage of revenue	**4.7%**	4.4%
Number of employees at year end	**4,242**	4,087

The Finning Commitment

to our **customers**

- We deliver the best solutions by building relationships based on an intimate understanding of each customer's problem.

to our **shareholders**

- To continuously build shareholder value.
- To conduct our business in an ethical manner.

to our **employees**

We work together in a way that:

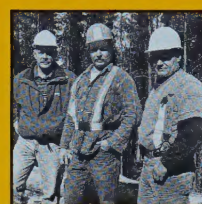
- We are each free to act toward clear, shared goals.
- We all feel the joy of doing what counts to keep our customers.
- We all learn in advance about changes that affect our work.
- We are involved in changes that affect our work.
- It is safe for people to express their opinion.
- Opportunities for individual development and growth are fair.
- We all know where we are going and how we will get there.
- We care about the well being of each other.

Our Employee Commitment

"My job is to make our customers and our company successful."

Table of Contents




Performance at a Glance

Corporate Profile

Finning is a Canadian-based international corporation with operations in Western Canada, the United Kingdom, Poland and Chile.

Canada

In Canada, Finning Ltd. sells, finances and provides customer services for Caterpillar and complementary equipment throughout British Columbia, Alberta, the Yukon and the Northwest Territories west of Manitoba.

The major emphasis is on the full line of Caterpillar products. Complementary equipment includes Reedrill Gardner-Denver drills, CompAir LeROI air compressors, Finning tank drills, JLG aerial work platforms, Scandlog log handlers, Thunderbird and Valmet logging systems, Risley feller bunchers, Wagner log stackers, Morbark recycling equipment, Barber-Greene, Gomaco and Rosco paving products, other associated lines.

Finning, headquartered in Vancouver, is represented in 65 communities in Western Canada. Sales, parts and service facilities are located in Campbell River, Chilliwack, Cranbrook, Fort St. John, Houston, Kamloops, Langley, Mackenzie, Nanaimo, Nelson, Port Hardy, Prince George, Quesnel, Sparwood, Terrace, Vancouver, Vernon, Victoria and Williams Lake in British Columbia; in Calgary, Edmonton, Fort McMurray, Grande Prairie, Lethbridge, Peace River and Red Deer in Alberta; in Whitehorse, Yukon Territory; and Hay River, Northwest Territories.

There are parts stores at Chetwynd, British Columbia, and Medicine Hat, Alberta; Materials Handling centres at Coquitlam and Abbotsford, British Columbia, Edmonton and Calgary, Alberta; truck engine service operations in Surrey, British Columbia, Edmonton and Calgary. Parts and repair services are provided from six depots; and resident mechanics are located in 30 other communities.

Europe

Finning (UK) Ltd. in the United Kingdom sells, finances and provides customer services for Caterpillar and complementary equipment in the southwest and Industrial Midlands of England, in Wales and in Scotland. Complementary equipment includes JLG aerial work platforms for the West Midlands and South Wales. The dealership territory also includes the Falkland Islands for the sale of Caterpillar equipment and parts.

Finning (UK) Ltd. is headquartered in Cannock and has branches at Aberdeen, Birmingham, Bristol, Cardiff, Chesterfield, Exeter, Glasgow, Leicester, Muir of Ord, Perth, Poole, Roche, Swansea and Winsford.

Finning Poland Sp. z o.o sells, finances and provides customer services for Caterpillar equipment in Poland through operations in Warsaw, Poznan and Katowice.

Chile

In Chile, Gildemeister S.A.C., 100 percent owned by Finning Ltd., sells, finances and provides customer services for Caterpillar equipment. Complementary lines include Ingersoll Rand mining drills and air compressors; Denharco forestry equipment; Grove cranes and Kenworth trucks.

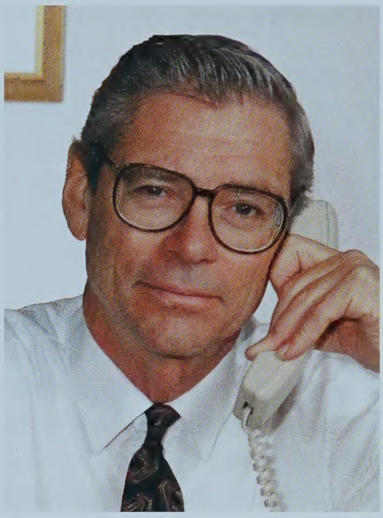
With head offices in Santiago, Gildemeister has branches in Antofagasta, Concepcion, Copiapo, Coquimbo, Iquique, Punta Arenas and Valdivia. There are 25 depots and mine site locations with resident mechanics.

Board of Directors (from left): C.A. Pinette, J.F. Shepard, D.S. O'Sullivan, M.M. Koerner, R.B. Hougen, W.R. Wyman, N.B. Lloyd, J.F.R. Pascoe

Letter to the Shareholders

Executive Summary

The results achieved by Finning Ltd. this past year confirmed our Company's strategic initiatives: full commitment to customer service and continued market diversification. Record revenues and profits were generated for the third consecutive year as our operating units focused on growth and shareholder value. For the first time in Finning's history, sales outside of Canada contributed more than half of our consolidated revenue. These results were achieved as a result of strong growth in both Chile and Europe as well as international sales of used equipment and used parts. To expand upon our presence in Europe, Finning received approval from Caterpillar in 1996 to negotiate the purchase of the Caterpillar dealership for those regions of the U.K. not currently served by Finning (UK) Ltd. With the potential completion of this acquisition in 1997, Finning will become the single Caterpillar dealer in England, Wales and Scotland. This expected purchase – along with continued growth in our existing markets – will further advance Finning's status as a leading Canadian-based international equipment company.



James F. Shepard, Chairman and Chief Executive Officer

1996 Results

In 1996, consolidated revenue for the 12 months ended December 31 was $1.87 billion, a gain of seven percent compared with $1.76 billion in 1995. Net income increased 14 percent to $88.2 million in 1996 from $77.5 million in the prior year. Earnings per common share were $2.26 compared with $2.00 per share in 1995. Non-recurring gains on the disposal of real estate in Europe contributed $7.5 million or 19 cents a common share in 1996. Sales from operations outside of Canada contributed 51 percent of consolidated revenue compared to 47 percent in 1995. The revenue contribution from outside of Canada for 1996 is comprised of $458 million from Europe; $409 million from Gildemeister in Chile; and $85 million from international sales of used equipment and used parts. The latter amount is included in revenue from Canadian operations for accounting purposes.

Shareholder Value

At Finning, we are committed to enhancing shareholder value. In 1996, we achieved a return on common shareholders' equity of 16 percent. Earnings per share increased 13 percent to $2.26 in 1996 and the book value per share gained 16 percent to $15.18. By year end, the Company's market capitalization – the total number of common shares outstanding multiplied by the stock market price – exceeded $1 billion for the first time, ranking Finning as the 79th largest company in Canada. The Company's diversification strategy has been a key factor in sustaining Finning's growth record in the 1990s. With significant operations in three countries, the Company has reduced its dependence on the performance of a single industry. For example, 1996 equipment sales in British Columbia were affected by the hardships faced by the forestry sector. Nevertheless, corporately, Finning continued to report record results. By focusing on our core businesses and integrating our "customer solutions" approach in Canada, the U.K. and Chile, the Company is able to build long-term value for its shareholders.

Caterpillar Growth

While market diversification has been a significant factor in Finning's growth, so to has been the expansion of the Caterpillar product line. Over the last two decades, Caterpillar has achieved leadership in hydraulic excavators, loader backhoes, mining trucks and paving products. In this decade alone, Caterpillar has introduced more than 220 new and improved products. We are looking to the future as Caterpillar announces new joint ventures and products that will allow it to gain a leadership position in agricultural machines, mining shovels and power systems packages. Caterpillar continues to report outstanding results and improve its best product line in history. This success has been brought about by bold steps taken earlier in the decade to upgrade plant facilities, streamline product development and adopt continuous improvement as a way of life. Caterpillar is committed to research and development and spends hundreds of millions of dollars annually to improve and expand their product line. At Finning, we are proud of our long association with Caterpillar which provides us with the most outstanding line-up of products and services in our industry.

Complementary Lines

To provide our international client base with proper customer solutions, Finning offers a complete system of complementary equipment lines wherever possible. For example, we represent Valmet logging equipment in Canada, lift trucks in all operations manufactured by Mitsubishi Caterpillar under the Caterpillar brand name and Kenworth trucks in Chile. In 1996, Finning was awarded the Mitsubishi Caterpillar franchise for materials handling equipment in the U.K. territory not previously served, thus becoming the single dealer in that market. And in Chile, Gildemeister is dedicating a separate management team and has opened a new facility in Santiago to grow the Kenworth dealership in that market. These complementary products are of high quality and are consistent with our strategy to sell, service and finance complementary equipment in our markets.

New Horizons in Canada

In 1996, revenue in Canada exceeded $1 billion as sales of domestic and international used equipment increased more than 40 percent. The Alberta economy is expected to remain strong in 1997 as the oil and gas companies expand their exploration and production programs.

Caterpillar's biggest motor grader at work for Syncrude Canada in Alberta's oil sands near Fort McMurray.

The single largest opportunity in front of Finning's Canadian operations is the world-scale oil reserve in the Alberta oil sands. This reserve represents a petroleum base that is larger than that of Saudi Arabia and can meet Canada's energy needs for several hundred years. In order to lower the unit cost of production in the oil sands, an extraction methodology using trucks and shovels has been employed. The large mining trucks – which cost more than $2 million each – are a large revenue stream for Finning in the future when the complementary support equipment is added to the existing truck fleet. Finning currently has more than 300 Caterpillar machines on site and more will be required in what is one of the world's biggest earthmoving projects. Thousands of new jobs will be created by Syncrude and Suncor and other industry players in the expansion of the Athabasca area. In total, the Alberta oil sands is expected to see capital investment of approximately $6 billion over the next six to 10 years.

In British Columbia, the economy has been growing primarily due to growth in the population. The forestry industry is currently experiencing lower commodity prices, increased compliance standards and a reduction in the annual allowable cut. To maximize the yield of the forestry resource, we see a need for innovation as harvesting shifts from first to second growth and logging techniques change. At Finning, we are positioned to meet these needs with Caterpillar's emerging forest products line and other specialized equipment. In addition, the forest industry in Alberta continues to grow as more companies expand their operations in this jurisdiction.

In northern Canada, there are a number of exciting projects which are advancing to the production stage. Development of a diamond mine in the Lac de Gras area of the Northwest Territories has already led to a multi-million dollar deal with BHP Diamonds Inc. There are other prospective mining projects in this diamond belt which are within Finning's franchise territory in the Northwest Territories and the Yukon.

Chilean Growth Continues

Our operation in Chile, called Gildemeister, reported another year of superior performance with revenue increasing 17 percent based on strong equipment sales and improved customer service. Gildemeister has established a leadership presence in the mining sector based on Caterpillar truck performance and on-site support. With the opening of new branches in strategic locations, we are well positioned to participate in the expansion of the country's infrastructure. With inflation now in check, the Chilean Government is commencing significant highway improvement projects to accommodate the higher transportation demands of its growing economy. A number of these projects currently underway are utilizing large fleets of Caterpillar equipment. There is also increasing demand for electric power, resulting in projects to deliver gas from Argentina. The first project is the Gas Andes pipeline to be completed by mid-1997. Construction has required more than 70 Caterpillar machines from our rental fleet. While most of the gas will be used to replace coal to generate power for the Santiago area, a move is now underway to service homes in the city, creating a need for construction equipment.

Custom-built Wagner Chip Carrydozer feeds Fletcher Challenge's pulp mill on Vancouver Island 24 hours a day, every day.

U.K. Economy Healthy

In 1996, revenue from the European operations improved nine percent as sales of new equipment increased in the plant hire, power generation and mining industries. The U.K. economy is leading the European Union in economic growth and has benefitted from strong foreign investment. Its large population base and reasonable standard of living provide a solid base for growing business activity. Finning's business has grown as a result of new products being introduced to the marketplace such as articulated dump trucks for the construction business and telescopic handlers for the plant hire and agricultural industries. The construction of new facilities in Cardiff and Chesterfield demonstrates our ongoing commitment to bringing our services closer to customers. Finning (UK) Ltd. has a broad base of customer service contracts and leads the way in forming customer partnerships.

The key strategic development in 1996 was the announcement in August by Caterpillar to award Finning the U.K. dealership being divested by Unilever PLC's subsidiary, H. Leverton Limited. This dealership covers the portion of England outside of Finning (UK) Ltd.'s territory. Negotiations to acquire this dealership are currently underway. When the acquisition is finalized, the Finning dealership will encompass all of England, Scotland and Wales. Concurrently, we intend to sell our finance portfolio in the United Kingdom and withdraw as the Caterpillar dealer in Poland.

Worldwide Sales Grow

International sales of used equipment and used parts set new highs in revenue and profit. Volume increased by almost $45 million over the previous year. Since 1992, revenue from this segment of our business has more than tripled. To better serve the international market, the used equipment departments in Canada, the U.K. and Chile are evolving into one organization dedicated to buying and selling machine packages worldwide.

The Finning Commitment

Early in 1997, the Company developed a new mission statement which has been titled the "Finning Commitment ". This statement, which is contained on the inside front cover of this Annual Report, focuses on providing the best solutions based on an intimate understanding of our customers' problems. To illustrate this, we have included in the Review of Operations of this Report a number of examples of how we do that on a day-to-day basis across all our operations.

The "Finning Commitment" also contains a climate goal which states that "we care about the well-being of each other". This goal has provided us direction in developing safety standards for our employees and the care of the environment in which we work. Our Company's safety goal is to see the elimination of all accidents across all our operations. This most challenging goal is being pursued with vigor by our management and employees.

Clearly, it is through the concerted and dedicated efforts of all of our employees that we can continue to be the leaders in the international markets we serve. With a strong dedication to our "customer solutions" commitment, we are able to deliver the results our shareholders expect. The 1996 results speak for the talent and productivity of all of our employees worldwide and we gratefully acknowledge their contribution to another record year.

James F. Shepard
Chairman and Chief Executive Officer

Review of Operations - Canada

Unit deliveries of Caterpillar core product decreased slightly in 1996 but increased demand in the last half of the year led to an upsurge of orders. At the end of 1996, the unit order backlog was 50 percent higher than in 1995. Overall market share also declined marginally due to a change in the mix of products sold, availability of new products at the time of introduction and a lower replacement year for the rental fleet.

Sales were strongest in the construction and petroleum markets. Sales in the mining and forestry markets were essentially flat.

Large tractors dominated mining sales; mid-sized models were in demand in the oil patch. Hydraulic excavators continue to be the most popular machine type; accounting for more than one-third of all deliveries. New excavator models, the first of which arrived late in the year, are expected to further improve market share.

Orders From Diamond Mine

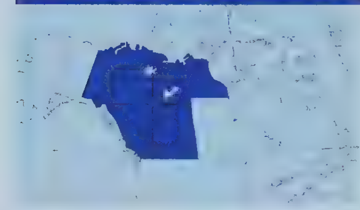
Development of a diamond mine in the Lac de Gras area of the Northwest Territories led to initial delivery and orders for power generation and mobile equipment. Three 725 kW gen sets with controls and special enclosures will join a similar unit on site to provide prime power for construction work. Five sets, at 4400 kW each, are to be shipped in 1997. Equipment on order includes large tractors, trucks, a hydraulic excavator and a motor grader.

Oil Patch Active

With record investment and high commodity prices, activity in the oil and gas fields surged. The pace of drilling for new discoveries sharply accelerated. Mining of the oil sands in northern Alberta continued to produce sales which included the first delivery in Canada of Caterpillar's biggest motor grader.

Shipments and market share of Challenger agricultural tractors practically doubled over 1995 levels. While the majority of users are in Alberta, the first sales to British Columbia farmers were made. Customers are recognizing the Challenger as a quality product with unique advantages over rubber-tired farm tractors. Rentals are proving to be a key to entry of these products into the market.

There was a softening in sales to Coastal forest companies; activity in the Interior maintained last year's level while demand continues to grow in Alberta. Processors, loaders and skidders dominated sales. Deliveries of track skidders are on the increase.



Paving Sales Double

The construction market saw sales of paving machines, mostly compactors, more than double. Five asphalt pavers were sold. Activity in Alberta was very positive. The British Columbia scene was quiet except for continuing success with purchases by highway privatization contractors. Caterpillar machines are the first choice in this market. Since July of 1995, approximately 280 units have been delivered or ordered.

The governmental market in Alberta was strong and Finning maintained its leading market share. Shipments increased by almost a third over 1995 to 123 units.

Domestic used equipment sales increased significantly, driven by demand in the oil patch. Quality used machines were sourced from other Caterpillar dealers to satisfy requirements. A notable success has been the rebuilding of big-capacity mining trucks for resale and a second life.

Movement of the rental fleet was again on the upswing in the trend to rentals for short-term jobs. Customers appreciate the specialization of the fleet with pipeline equipment in Edmonton; forestry machines in Prince George; construction units in Langley and Calgary. There are approximately 500 machines in the total fleet with a retail value of some $120 million.

One of three Cat excavators in Art Dew Contracting's fleet, Gibsons, British Columbia.

Revenue from customer services was generally even with that of the previous year, partially impacted by a two-week labor strike in Alberta. The component rebuild centre in Edmonton succeeded in improving results despite the strike, achieving a marked turnaround from 1995's loss position. Further improvement is expected in 1997. The parts department, in partnership with a team from Caterpillar, won a Caterpillar quality award for continuous improvement in parts ordering and distribution. There were 150 entries in the annual competition.

Lift Truck Rentals Grow

In Divisional results, the Materials Handling business continues an upward pace with a steady focus on rentals and used lift trucks. Sales of new trucks were flat; the increase coming in rental volume. The buying and selling of used lift trucks has been expanded throughout North America. The Caterpillar lift truck line is well accepted. Rental of JLG aerial work platforms is strong.

Finning Power Systems maintained last year's volume. There was a return to high demand for engines for gas compression packages and an increase in deliveries of engines for drill rig power.

More than 25,000 heavy-duty Caterpillar truck engines are registered and operating in Finning's territory; a market share of more than 30 percent. Truck engine parts sales increased by 19 percent while service revenue was consistent with 1995's good performance. Customer services in the truck engine business account for the majority of Power Systems' revenue and profit.

Overall results in the Drills and Compressors Division repeated those of the previous year with an increase in parts revenue. Purchases reflected the trend to leasing, Rentals were the core of the business. Deliveries of Amida light towers were particularly high to rental houses.

Large CompAir LeROI air compressors were rented to pipeline contractors in Eastern Canada and the United States. There was an increase in demand for pneumatic hammers in demolition work.

A key sale was of a Reedrill Gardner-Denver Hydratrac drill to an aggregates producer. It allowed replacement of three machines, one of which was retained for utility purposes.

Employees at Grande Prairie donated time and talents in the community's Habitat for Humanity housing project.

Finning-sponsored Power Tour takes powerful anti-substance abuse message to schools throughout British Columbia and Alberta. In this photo, world-class wrestler and presenter Leigh Verling meets with pupils from St. Rita elementary school in Calgary. The Power Tour continues to draw enthusiastic responses from thousands of students, educators and law enforcement officials.

Focus On Training the Work Force

The year was an active and challenging one with respect to people issues. The recruitment and selection teams participated in activity which increased employment in Canadian operations from 2,259 to 2,304.

A shortage of skilled heavy-duty mechanics required some unique recruitment advertisements across the country. To help deal with this shortage and build for the future, 39 mechanical apprentices have been enrolled. Twelve other apprentices were hired; four in parts and eight as diesel engine mechanics. This is the largest intake of apprentices in years.

The expansion of product lines and the increasing sophistication of machine components create a significant need for technical training. In 1996, a committed group of technical trainers delivered 34,000 hours of instruction. The amount of technical training has increased three-fold since 1992 and is being provided more effectively at a lower cost per hour.

Training has been a Finning trademark since the 1940s and in addition to technical courses in 1996, 2,500 hours of instruction were given in parts and service systems; 450 employees received sales training; 150 were enrolled in a supervisory skills development program in preparation for career advancement and 125 attended courses on a new process of job selection.

Cat Information System On Schedule

The massive task of converting to Caterpillar's Dealer Business System (DBS) is on schedule for implementation in July, 1997 in Canada and two months later in the United Kingdom. In September, 1996, Gildemeister became fully integrated with the current version of DBS. The latest Advanced Series IBM AS/400 computer has been installed in Vancouver and Cannock.

Finning is working very closely with Caterpillar because of the magnitude of the project. We are pleased with the high level of co-operation between ourselves and Caterpillar.

One of the benefits of joining with Caterpillar and other dealers in this world class worldwide information system is the potential for sales of custom software developed by Finning. An example is the Costwatcher PLUS repair option quoting program; one of a number of systems being developed as a niche market opportunity.

First Work Stoppage

In the second quarter, the Company experienced the first work stoppage in its 63-year history. Following a two-week strike, the Company and the union representing hourly-paid employees in Alberta reached agreement on a three-year contract. The Company and the union representatives have made a sincere commitment to work to resolve the differences that led to the dispute.

Scandlog short-wood log handlers sort and store logs at Interfor's Western Whitewood sawmill near New Westminster, British Columbia.

Solutions
for Customers' Problems

Jim Alveberg,
vice president operations,
VSA Highway Maintenance Ltd.,
Armstrong, British Columbia

"Caterpillar was the stated preference of the employees. That certainly says something, doesn't it?"

"Just six short weeks to assemble maintenance fleet."

VSA Highway Maintenance Ltd. is British Columbia's largest private road contractor. The firm is responsible for all maintenance of highways and roads in two large regions: 2,000 kilometres in the Nelson/Creston area and 800 kilometres in Selkirk/Revelstoke.

They have held the Selkirk/Revelstoke contract since 1991. In 1996, when they won the Central Kootenay, they faced the formidable task of more than doubling in size and in just six short weeks. The contract was awarded in mid-April and went into effect on June 1.

VSA had to hire 126 full-time and 60 part-time employees. Fortunately, nearly all were from the previous contractor and familiar with the work. VSA inherited the existing maintenance infrastructure - camps, shops, workyards - but did not take on the mobile equipment. They had to put a fleet together from scratch and very quickly.

In just a few short weeks, VSA ordered or brought into service 40 new dump trucks/snowplows, all Caterpillar-powered, 20 Caterpillar graders and 20 Caterpillar loaders and integrated toolcarriers.

Jim Alveberg, vice president operations, says: "What we did was build a combination new and used fleet, with a lot of the new equipment being machines like graders and snowplows that are unique to our business and not otherwise readily available. All 40 new trucks are Cat-powered and our equipment fleet is predominantly Caterpillar - 40 machines all told. Cat, by the way, was the stated preference of the employees who will either be operating the machines or working on them in our shops. That certainly says something, doesn't it?"

Ken Scatchard, general manager, Revelstoke/Golden, was one of the people charged with determining the types and numbers of machines required then getting them where they were supposed to be and on time. States Scatchard: "It was a big job. For sure, with the Cat machines, we had a lot of help from Doug Harrington (Finning manager at Vernon) and his people and it was much appreciated, believe me."

Wilbur Van Der Meer, VSA manager at Revelstoke, worked for the former contractor and provided input in machine selection. One difference with the new fleet, he reports, is the use of smaller machines.

"We have five new 160H graders and 15 new 140H graders. These are smaller machines than we used here before but I'm betting they'll do more work than the old ones. Cat equipment is getting smaller and lighter but every new model seems capable of doing more. It is the same with the loaders. We've got four 938Fs and 12 IT24Fs. They are smaller than what we were running but they're certainly proving they can do the job."

Caterpillar 938F wheel loader clears snow for VSA Highway Maintenance Ltd.

Grant Fox, *(Finning) left, with* **Jess and Jason Mallard,** *Mallard Logging, Fort Steele, British Columbia*

"You've got to have good people there, working to a well-planned system, and have good equipment."

Joe Larocque, *machine operator, Canfor Englewood Logging Division, Vancouver Island*

"Swiss Army Knife on wheels" speeds logging road upkeep.

"The landing is the heart of any logging show."

Jess and Jason Mallard run a versatile forestry show at Fort Steele. They are engaged in silviculture, site reclamation, roadbuilding and right-of-way logging. When they decided to revamp their logging operation, they approached Grant Fox, Finning manager at Cranbrook, with the idea of replacing a wheel loader at their landings with a track-type hydraulic log loader. After a brainstorming session, a Caterpillar 322 log loader with a heel boom grapple was chosen as the solution.

"Jess and Jason were already running a 320 in silviculture and site work and it was working out very well for them", says Fox. "It was decided that the 322LL would be a good fit as well." The machine was customized with a Finning bush-guarding package and other adaptations.

The 322LL is the right size for the timber, has the required decking height and is more efficient than the wheel loader, requiring much less room.

"The landing is the heart of any logging show as far as we're concerned," says Jason Mallard. "It is the key to the operation. You've got to have good people there, working to a well-planned system, and have good equipment".

The brothers later added a second 320L, using it to bunch for the skidders.

Caterpillar 322LL log loader improves loading efficiency for Mallard Logging, Fort Steele.

"Versatility, mobility keys to better road maintenance."

In British Columbia's Forest Practices Code, considerable emphasis is placed on maintaining drainage and water courses to control soil erosion along road systems.

At Canfor's Englewood Logging Division on Vancouver Island, a Caterpillar track-type 320 excavator was used for ditch clean-up and maintenance and culvert recovery. But a disadvantage and cost factor was that it had to be low-bedded from site to site.

Dave Summers, general superintendent, wanted to review different aspects of maintaining the division's 1220 kilometres of roads to pursue cost and operating efficiencies. He had in mind a compact excavator on rubber that could move between job sites on its own. It would not only reduce transport costs but also enable faster response to blocked culverts and/or sluffed-in ditches.

Barry Bourgeois, Finning manager at Port Hardy, was consulted and he recommended a Caterpillar rubber-tired M318 excavator. It was custom-modified with a deluxe forestry guarding package, catwalks and a Quick Coupler for attachments.

The Quick Coupler makes it easy to switch tools which, in this case, include a rotating grapple, wrist bucket for working side slopes, a hydraulic thumb for the bucket and a grass mower.

"You could call this a Swiss Army Knife on wheels," laughs Summers. "We wanted versatility and we definitely have that. This machine is manufactured in Europe but with all of the modifications, it has basically been tailored to B.C. conditions and our requirements.

"Having a machine like this that can go about its business independently throughout the division certainly makes our job easier. We feel it will save us a lot of time and a lot of money".

Mobility and versatility of Caterpillar M318 excavator ease road maintenance for Canfor Englewood Logging Division.

Jim Pederson,
senior production foreman,
Unocal Canada at Aitken Creek,
British Columbia

"This is a Cadillac all the way, particularly compared to some of the older units we have here. This engine almost runs itself."

Bob Caines, *mine manager,*
Highland Valley Copper,
Logan Lake, British Columbia

"We have realized significant savings with this."

"You probably couldn't ask for more."

Five Caterpillar natural gas engines power compression packages at Unocal Canada's gas storage, treatment and compression facility at Aitken Creek, some 120 kilometers north of Fort St. John, British Columbia. The newest and largest engine is a Caterpillar G3616, producing 4,400 horsepower. It was the first gas engine of this size delivered in Canada.

Jim Pederson, senior on-site production foreman, says the G3616 was chosen primarily for its production capacity. The highly sophisticated electronics in the engine presented a technology leap for Aitken Creek operating personnel.

Says Pederson: "This is a Cadillac all the way, and particularly compared to some of the older units we have here (including Caterpillar 3408 and 3412 packages). This engine almost runs itself. As far as electronic technology goes, you probably couldn't ask for more."

Unocal staff attended training sessions on operation and maintenance of the new engines given by Finning Power Systems specialists. Major emphasis was on the new generation electronics, including the diagnostic instruments used to analyze the engine's performance and pinpoint potential problems.

Finning has broadened its customer services initiatives in this area of British Columbia and Alberta. Additional fully-trained technicians are located at branches, parts are stocked at Fort St. John and Grande Prairie, two fully-equipped mobile shops are available for quick dispatch for on-site repairs.

Unocal's Caterpillar G3616 is largest gas-powered compressor package in Canada.

"Tour of Reman Centre was convincing factor."

In 1988, Highland Valley Copper at Logan Lake in south central British Columbia began to move to a standardized haul fleet with the acquisition of eight 175-tonne Caterpillar 789s. Since then, more have been added and today, all 33 trucks in the fleet are 789s.

This was quite a radical decision back in '88 because mine personnel were familiar only with electric-drive trucks whereas the 789 featured mechanical drive. It was the first use of mechanical drive in a truck of this size.

Highland Valley's initial eight units - a ground-breaking order for both Caterpillar and Finning - gave the mine the largest 789 fleet in the world at that time.

Helping Highland Valley in its decision was an innovative approach by Finning; a guaranteed cost arrangement. For a set fee for each operating hour, this guaranteed cost covered all drive train components for 30,000 hours. This arrangement is fairly standard in the industry now but it wasn't then.

All of the current 33 trucks are on Finning's Planned Component Replacement program whereby key machine components are replaced at scheduled intervals with remanufactured units.

This, with the use of remanufactured components the key element, has played a big part in helping to reduce fleet operating costs, says Bob Caines, mine manager.

"I was a little skeptical about this at first but it didn't take long after touring Finning's reman centre in Vancouver (since relocated to Edmonton) to convince me. There is a big difference between a rebuilt and a remanufactured component. What I saw was that when you combine the efficiencies of batch assembly with quality test procedures, you end up with a component that virtually duplicates new factory specifications. We have realized significant savings with this."

Caterpillar 789 truck is one of 33 at Highland Valley Copper, Logan Lake.

Bill and Ann Delanoy
Prairieview Seed Potatoes Ltd., Vauxhall, Alberta

"I strongly believe that if you put identical horsepower against horsepower, there isn't another tractor out there that can match this..."

"Ground compaction with exclusive rubber track is remarkable."

Bill Delanoy and his family operate Prairieview Seed Potatoes Ltd. in the dry belt south of Vauxhall, Alberta, producing about 16,000 tonnes of seed potatoes a year.

He prepares and fertilizes potato hills in the fall; an innovation which has increased his production significantly. To get the results needed in this work, he tried several different types and sizes of tractors to pull sub-soilers but wheeled tractors couldn't get enough traction.

He field-tested a 175 horsepower Caterpillar Challenger 45 tractor against conventional 4WD machines. Hitched to a sub-soiler that usually needed a 300 to 350 horsepower, triple-tired tractor to pull it, the 45 was underpowered but Delanoy was surprised that it could pull the sub-soiler at all. "When I saw that, I thought that if we went to a slightly larger Challenger, we'd really have something. The Challenger 55, with about 50 more horsepower, is doing the job we had in mind".

Ground compaction with Caterpillar's exclusive Mobil trac is "remarkable", says Delanoy. "My foot makes a deeper impression in the soil than that machine. It can also work in areas where it's too soft for me to walk.

"I strongly believe that if you put identical horsepower against horsepower, there isn't another tractor out there that can match this for pulling power and overall efficiency".

Challenger 55 carries liquid fertilizer tanks and spraying system for Prairieview Seed Potatoes Ltd.

Review of Operations - Europe

The United Kingdom economy expanded steadily through 1996 with growth accelerating in the final quarter. Improved housing starts and private commercial investment helped to balance reduced government spending on roads and other infrastructure projects. Construction output improved over the previous year's level, leading to continued investment by the plant hire industry. Quarry production increased in response to higher demand for building products. Growth in demand for electric power exceeded forecasts and opencast coal mining operators delivered high tonnages to power generating stations.

Unit deliveries of new Caterpillar machines advanced by eight percent and market share increased significantly in a slightly reduced market.

World Record Deliveries

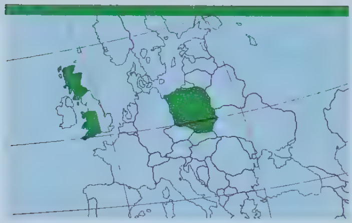
Opencast coal mining companies ordered 777D series trucks during the second half of the year, reflecting a confident view of the medium-term prospects for the industry. Finning (UK) Ltd. delivered a world-record number of Caterpillar articulated dump trucks, posting a major gain in market share for these versatile machines.

Used equipment margins dropped back to historic levels following the exceptional figures seen in 1995. Demand remained steady for good used equipment in the larger machine sizes. International sales activity was brisk.

Shipments of new and rebuilt lift trucks increased by 25 percent compared with the previous year although average unit values fell due to the increased sales of smaller machines.

Manufacturers of rock crushers and other powered equipment called for a record number of Caterpillar industrial engines. Unit volume rose by nine percent. Rentals of diesel generator sets saw vigorous growth and the rental fleet was expanded to meet demand.

Seventy percent of all lift trucks are now supplied under long or short-term rental agreements. Finning Fleet Management Consultancy offers analysis of customers' materials handling needs and recommends appropriate equipment, finance and support options.



In 1996, Finning (UK) Ltd. acquired the franchise for JLG aerial work platforms in the West Midlands and South Wales. This product line has much potential in a rapidly expanding market. Health and safety regulations increasingly restrict the use of ladders and staging on construction and industrial sites.

Polish Activity Picks Up

Construction activity accelerated in Poland. Newly-established finance sources funded machine purchases. A large oil and gas organization purchased 20 model 416 backhoe loaders. A special contract which aligns rental payments with seasonal work loads led to the supply of 19 pipelayers for use on building the strategic natural gas pipeline between Russia and Germany. A German contractor purchased six hydraulic excavators and six backhoe loaders for use on road renewal projects.

Customer Services Enhanced

In customer services, work continued on a major contract to rebuild D6 tractors for civil defence. A new purpose-built facility was opened at Chesterfield, Derbyshire, replacing 50-year old premises. Innovative field service control software was deployed at Bristol and Winsford branches, reducing dependence on paper-based systems. Customer services personnel were increasingly involved in helping to structure new sales proposals which include service agreements. This reflects increasing customer preference for contracts which offer predictable equipment costs.

In 1996, a change of name from Finning Limited to Finning (UK) Ltd. was effected.

Solutions for Customers' Problems

Chris Dunn,
managing director,
Eurocrush, Leicester, England

"Cat products are superb and they get the job done. I don't think Finning can be beaten for equipment and service."

"Long-term mutual respect forges close working relationship."

Long-term mutual respect between the founder of Eurocrush and key Finning personnel has led to a close working relationship that helped towards the fast and successful startup of Eurocrush's contract crushing business in England.

Started about three years ago, Eurocrush's core business is built around mobile crushing equipment that is moved onto a customer's site. The company then takes care of everything from the quarry's blasted rock, to crushing all grades of stone, to loading out the different products from managed piles.

Because of good business plans, and the long-term trust between Finning and Eurocrush, beneficial financial arrangements were developed to help Eurocrush make a smooth startup – Finning was even able to help them purchase a Cat-powered crusher. Now, Finning maintains and services all the company's equipment – including their competitive machines – on long-term contracts.

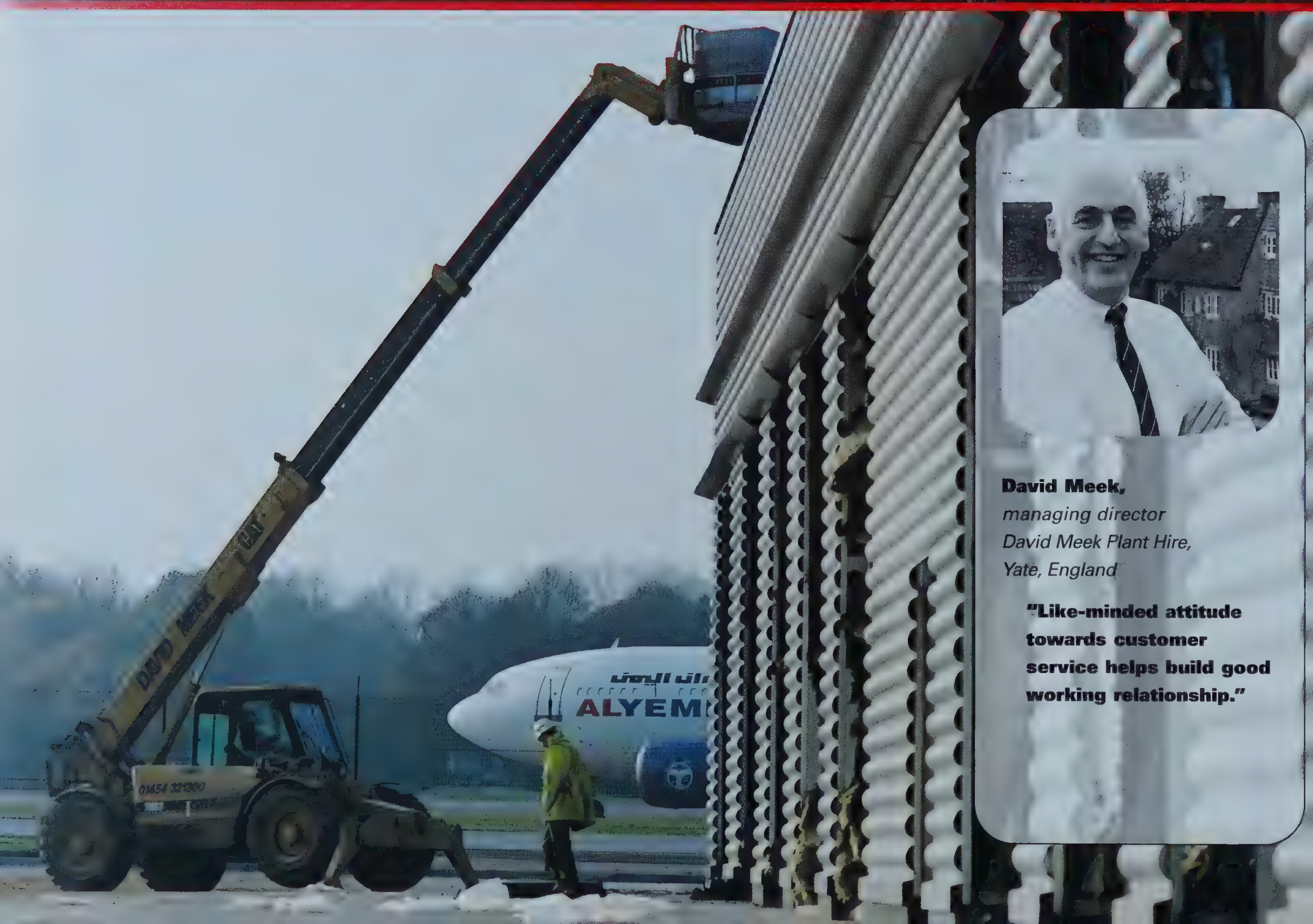
A high percentage of the company's three-million-tonnes-per year production is handled by Caterpillar equipment, including Cat wheel loaders, Cat power for the crusher, and Cat gen sets for electrical power. Eurocrush can have 10 to 12 quarries in production at any one time and will operate 20 to 25 sites throughout the British Isles over the course of year.

"Finning is probably our largest supplier," notes Eurocrush managing director, Chris Dunn, "because Cat products are superb, and because they get the job done. I don't think Finning can be beaten for equipment or service."

Caterpillar 966F loader carries blasted rock to Cat-powered crusher at Eurocrush quarry near Glasgow, Scotland.

Rhidian Davies, left, (with Finning's Robert Powell)
managing director
Consolidated Coal PLC,
South Wales

Super-quiet, low-emission 966F loader solution for noise problems in coal handling facility. "I do like Caterpillar."



David Meek,
managing director
David Meek Plant Hire,
Yate, England

"Like-minded attitude towards customer service helps build good working relationship."

"Exhaust emissions, noise levels sharply reduced."

For work inside a former factory building, noise and low emissions were critical factors in choosing a wheel loader to handle sales of more than 4,000 tonnes per week of high-quality Welsh coal.

The solution for Consolidated Coal PLC, located near Neath in South Wales, was the super-quiet "Blue Angel" Caterpillar 966F.

So quiet that it is difficult to hear above the noise of a highway truck idling, this 966 is one of a series of Caterpillar-developed wheel loaders that have earned the prestigious "Blue Angel" certificate for sound reduction from the German Federal Environmental Administration. Exhaust emissions have also been reduced considerably over the already-clean standard models. Sound levels have been reduced by about 80 percent, allowing these machines to continue working round the clock, even in built-up areas of the British Isles. Emissions have been reduced by approximately 20 percent.

Consolidated's managing director, Rhidian Davies, states: "I do like Caterpillar" and confirmed that opinion by recently purchasing four Caterpillar 365 kVa generator sets to supply the power for his private coal company.

The 966 manages the coal in the 250,000 square metre, covered preparation and storage facility. Consolidated was started by Davies in 1987 when he obtained a licence to work a former underground mine that had been closed. Working on his off-shift from British Coal, he drove the first 160 metres by hand with two full-time employees. Now, nine years later, his production is close to 8,000 tonnes per week.

Caterpillar 966F Blue Angel loads delivery trucks and feeds a crusher at Consolidated Coal PLC, South Wales.

"What makes the difference is people."

David Meek, founder and managing director of David Meek Plant Hire, admits Caterpillar machines are good but when it comes right down to it, "metal is metal" he points out.

"What makes the difference is people and we'd not be buying Caterpillar machines were it not for Finning and their approach to doing business with us."

David Meek Plant Hire is one of the United Kingdom's largest private equipment rental companies and is widely known in the industry for being a leader in the use of new technology to achieve better productivity at lower cost.

"There are always exceptions to the rule but in broad terms we find that if a customer can achieve a one percent increase in machine availability or productivity, that will translate to the equivalent of a four percent savings on his rental costs", Meek estimates.

"And that's the most positive possible reason to employ the best equipment."

He says he knows that if he runs into a problem, he can phone his Finning contact and the problem will be taken care of. "That makes a big difference to me, particularly when it's my reputation that's on the line if something goes wrong on site.

"We have a good ongoing relationship and we enjoy working together."

David Meek has more than 1,000 pieces of equipment, evenly divided between two market segments - aerial lifts and construction equipment. He operates out of five locations in England and Wales and appreciates that there's always a nearby Finning branch to support his needs.

Caterpillar's TH65 telehandler helps construct a new Royal Mail sorting office near Bristol for David Meek Plant Hire.

Phil Mulhall,
principal engineer for gas utilization
3C Waste Limited,
Chester, England

Finning and 3C Waste Limited concentrate on "what each does best".

Ross Snape, *regional director*
Southern Region,
Camas Aggregates,
Somerset, England

"There are significant benefits; more than we've actually analyzed."

"Cat machines, engines convert garbage to power."

Caterpillar machines and generator sets convert garbage to electricity at four sites in central England for 3C Waste Limited.

In a close relationship with Finning, 3C Waste is concentrating on what it does best, which is "managing the disposal of waste for a large number of customers, rather than running a fleet of plant and associated equipment", says Hugh Hoather, managing director.

Meanwhile, Finning supplies the machines and looks after all the repairs and maintenance needed to compact the garbage and to convert the methane, coming off the four sites, into electricity. Each Caterpillar engine produces approximately one megawatt of power, of which 900 kilowatts is sold into England's national grid, while the rest is needed to run the mini power station and to power the site.

So far, a total of seven Caterpillar 3516 spark ignited V16 engines have been ordered under 15-year contracts. These engines are linked via computers to Finning's headquarters in Cannock where all functions are monitored 24 hours a day.

3C Waste expects the sale of electricity to create a profitable payback after the first four or five years of the contract, says Phil Mulhall, principal engineer for gas utilization.

A further benefit of generating electricity from the methane is a major reduction in air pollution. "The Cat engines basically convert the methane into carbon dioxide and water," Mulhall explains, "which has only one-thirtieth the pollution potential of methane".

Caterpillar compactor and wheel loader at 3C Waste Limited's Gowy landfill site near Finning's Winsford branch.

"Careful matching reduced equipment fleet by eight machines."

Camas Aggregates believes there are some "significant benefits" built into their new partnership with Finning; "more than we've actually analyzed", says Ross Snape, Camas' regional director for the southern region.

Camas owns and operates 19 quarries throughout the British Isles and recently entered a five-year contract with Finning to provide all the rock handling - from face to crushers - for three of their operations in southwest England.

Through careful matching of wheel loaders and trucks, Finning was able to reduce the Camas fleets from 28 to 20 machines, buying back the surplus equipment and providing Camas with an approximate $1.3 million cash infusion.

Charging a fixed hourly rate, based on average use of 2,000 hours per machine per year, Finning provides the equipment, all maintenance and repairs, guaranteed call-out times and 95 percent availability.

"When we looked at our core business", Snape comments, "we realized our main strengths were in obtaining the planning permission for new quarries and in the marketing of our materials. In between, we had room for improvement; we were not using our equipment efficiently".

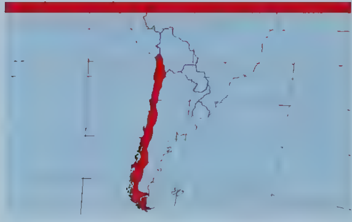
The new arrangement "has actually changed our cash flows more than our actual hard profitability costs," he notes, "but our net present value is better and we've reduced our exposure to risk somewhat - a big plus to us, especially in the light of the fluctuating markets for our products".

Camas has retained its own equipment operators and is hoping the more modern fleet will help boost morale, making it easier for the company to take full advantage of the guaranteed 95 percent availability.

"If this arrangement works," says Snape, "it's something we will definitely look at expanding to our other quarries".

Caterpillar 988B wheel loader fills Caterpillar 775B trucks at Camas Aggregates' Callow rock quarry in Somerset.

Review of Operations - Chile



It was another good year for the Chilean economy. Inflation continued its way down, closing at 6.6 percent. Growth in Gross Domestic Product reached a healthy 7.0 percent. Unemployment was reduced to 6.5 percent. In spite of these good numbers, the prices of two leading commodities dropped sharply during the year; copper prices down 30 percent and cellulose almost 45 percent. In the case of copper, lower prices were offset by increased output and new mines coming into production. The mining sector reached almost US $8 billion in exports. In contrast, forestry exports fell by 22 percent to US $1.8 billion, even though physical production remained constant.

As in previous years, mining was the leading business in terms of revenue. Sizeable packages of loading, hauling and drilling equipment were sold in a very competitive atmosphere. Market share reached an all-time high of 51 percent in terms of units sold.

New mines starting up, expansion projects and equipment replacement plans for existing operations provided excellent sales opportunities for a wide range of equipment; in many cases tied in with long-term maintenance and repair contracts. Mining truck sales totalled 50 trucks; 33 240-ton units, eight 195-ton and nine 130-ton.

Executives from 15 leading mining companies were hosted at Minexpo '96 in Las Vegas and at Caterpillar's demonstration centre near Tuscon. Previous tours have been valuable in developing excellent customer relationships.

Construction Pace Increases

The construction market was highlighted by the rental of equipment for sizeable projects such as the gas pipeline being built to deliver natural gas from Argentina to the central part of Chile. Housing and commercial construction continued at a fast pace, with good demand for sales and rentals of excavators, backhoe loaders, portable air compressors and generator sets.

The sharp decline in the price of cellulose impacted negatively on the forestry market. In addition, pressures from environmental organizations have hampered development of native hardwood forests in the south. Nevertheless, further progress was made in introducing track skidders into the woods with 30 units now in operation. Similar advances have been made in the use of integrated toolcarriers for log and lumber handling.

For Power Systems, the fishing industry and the leading shipyards continue to provide sales opportunities for propulsion engines and auxiliary power. Delivery of high horsepower engines continues, fighting against intense competition from European manufacturers.

Three state-of-the-art facilities were opened in Chile in 1996 including this branch at Coquimbo.

Because the country is suffering a serious drought and demand for electric power has sharply increased, sales of generator sets have been excellent. For example, a turnkey power station for the town of Coyhaique in the deep south was designed and built and generator sets installed to provide 2,350 kW of prime power. This was a joint venture between Caterpillar, Finning Power Systems in Vancouver and Gildemeister.

Used Sales, Rentals Increase

The comparatively new business unit of used equipment and rentals continues to grow rapidly. A broad inventory and aggressive advertising have provided the impetus. Plans are underway to expand the rental of small machines.

Kenworth heavy-duty trucks face strong competition from leading brands from the United States and Europe. The new specialized sales and service facility opened at year-end in Santiago confirms the Company's commitment to provide outstanding customer service for this product line.

Important steps were taken to improve customer service capability. As machine fleets sold in previous years, especially to mines, have started to age, demand for customer services has increased substantially. To cope, the inventory levels of parts and components were increased by 46 percent to US $48 million by year end.

Enrique Soto, training manager, Gildemeister, and Jim Shepard, chairman and CEO, discuss cab simulator training tool.

Official certification of Lloyd's ISO 9002 Quality Assurance was achieved by the component rebuild centre in Antofagasta. In operation since 1991, the centre has become the foremost technical support facility for Caterpillar equipment in the north.

Customer service capability in Chile was enhanced with delivery of a new fleet of fully-equipped service trucks built in Western Canada.

Solutions
for Customers' Problems

Ignacio Viboud,
managing director, Ecogas

"Our need for top quality, reliable and professionally supported equipment made the choice of Caterpillar machines supplied and supported by Gildemeister the obvious decision."

"More than 70 Caterpillar machines build gas pipeline."

Ecogas, short acronym for Empresa Constructora Gasoducto Chileno Ltda., is the contractor chosen by Gas Andes (subsidiary of Nova Gas International of Calgary) for the tough job of laying the pipeline that will carry natural gas from Argentina into the central region of Chile. The line crosses the massive Andes mountains in a one-of-a-kind US$ 300 million engineering challenge. Spanning gorges and rivers, and topping altitudes above 3,700 metres, in an inhospitable and wild environment, the 400-kilometre job will be completed in only 20 months.

Ignacio Viboud, managing director, explains that "because of the short and intensive work schedule, and due to the fact that during the winter months we cannot work because of the snow, we resorted to Gildemeister's rental fleet for the whole project.

"Our need for top quality, reliable and professionally supported equipment required for a very demanding job as this one made the choice of Caterpillar machines supplied and supported by Gildemeister to be the obvious decision," Viboud declares.

In general, the fleet has performed well, with almost no loss of power because of the high altitude. Gildemeister has provided constant support, with resident service supervisors to help Ecogas mechanics with maintenance and minor repairs. Major repairs are sent to Gildemeister's Santiago branch, only 60 kilometres away. A minimum inventory of routine maintenance parts is maintained at the job site. Major parts and components are supplied from Santiago.

During the peak summer period, more than 70 Caterpillar machines (30 tractors, 17 hydraulic excavators and 23 pipelayers) worked 12-hour shifts. Reliability and adaptability were main factors in selecting machine models and sizes. When specially-equipped excavators were required in one instance, Gildemeister quickly ordered and imported the custom equipment. In certain high altitude areas, equipment had to be brought in from Argentina due to lack of access roads in Chile. Machine operators, fuel and supplies had to be ferried by helicopter from Santiago. In only two months, over 30 kilometres of right-of-way were completed at altitudes ranging from 2,300 to 3,500 metres.

The completion of the pipeline by mid-1997 will provide a cleaner and cheaper fuel alternative to the Santiago metropolitan area, thus bringing some relief to its heavily polluted air.

Natural gas pipeline under construction by Ecogas crosses the Andes from Argentina into central Chile.

Marcos Montano,
general manager,
Tribasa-Inela S.A.

"We have been able to substantially reduce downtime and thus maintain high availability."

Rodrigo Peon-Veiga,
general manager,
Pullman Chile and Transcargo

"Very high on our list of priorities in purchasing the trucks was Gildemeister's coverage throughout Chile."

"Parts and service critical to keep us on schedule."

The need for expansion of their activities and the downturn experienced by the Mexican economy a few years ago sent giant contractors like Tribasa on a search for opportunities elsewhere. One opportunity arose in Chile in 1995. In a joint venture with the leading Chilean construction firm, Inela S.A., they formed Tribasa-Inela S.A. and won the international public bid called by the Ministry of Public Works to build the new northern access to the industrial city of Concepcion, 500 kilometres south of Santiago.

This was one of the first contracts under the new concessions system whereby the contractor would finance, build and operate the toll highway for 28 years after which it would be turned over to the government. Total investment will be US$ 180 million. The toll highway will be 75 kilometres long, four lanes with limited access. Maximum speed will be 120 kilometres per hour, reducing travel time between Santiago and Concepcion by 50 minutes. Safety will be greatly enhanced over the old, two lane, twisting road.

Marcos Montano, general manager, says: "We brought more than 200 pieces of equipment for the project, 152 of which are Caterpillar. This huge number of machines was required in order to complete the highway in 26 months. Being a fleet of used equipment, the availability of parts and service was a critical factor in keeping the job on schedule.

"This is where Gildemeister S.A.C. has played a significant role. Thanks to the parts depot installed and run by them at our jobsite, we have been able to substantially reduce downtime and thus maintain high machine availability rates. And, when a part is not available, they can order it immediately from the factory direct from our site. This has also meant a saving for us in not having to run with the administration of a parts inventory and warehouse."

The highway is scheduled to open to traffic in July, 1997.

Caterpillar wheel loader and truck on Tribasa-Inela's major highway reconstruction between Santiago and Concepcion.

"We are very happy with the quality of service."

Rodrigo Peon-Veiga is the general manager of Pullman Chile and Transcargo. Transcargo owns and operates a fleet of 100 trucks, 65 of which are Kenworth. They haul all of the gold and copper concentrates of the El Indio mine, close to La Serena; service the Minera Ojos del Salado copper mine, owned by Phelps Dodge; and have contracts with Esso Chile, Shell Chile and Copec for transport of fuels to mine sites high in the Andes.

Peon-Veiga states that "all of Transcargo's contracts are difficult because most mine sites are located at 4,500 or more metres above sea level with very hard access roads". Because of these severe conditions, he uses mainly Kenworth trucks with their excellent quality.

In addition, he also claims that "very high on our list of priorities when we made the decision to purchase the trucks was the coverage that Gildemeister offered throughout Chile. Currently, we are already using the brand new Kenworth-dedicated facility in Santiago as well as the new branch in Coquimbo and the Iquique branch in the north. In all of them, service has been excellent. As you can imagine, we cannot afford to have our trucks idle because of the lack of parts or service. We are very happy with the quality of service performed by Gildemeister and we plan to purchase over 50 more trucks during 1997."

Pullman Chile owns and operates 220 Mercedes Benz buses which transport workers to the El Teniente copper mine near Rancagua; the Minera Dayton gold mine near La Serena; and the new Collahuasi copper mine west of Iquique.

Pullman Chile has been operating for 24 years. Transcargo started seven years ago and has seen explosive growth, largely due to the professionalism with which they conduct their business.

One of Transcargo's 65 Kenworth trucks which serve mine sites at altitudes of 4,500 metres or more.

Management Discussion & Analysis

The Component Rebuild Centre in Antofagasta, Chile, receives Lloyd's 1S0 9002 certification. Pictured, from left: Michael Ramdohr, Lloyd's Register; Jim Shepard, Finning chairman; Carl Cederberg, Gildemeister president; Enrique Raffo, Gildemeister vice president; Ricardo Cornejo, Rebuild Centre manager; Roberto Flores, Centre supervisor.

Comparison of Results of 1996 to 1995

Record levels in revenue and earnings were achieved in 1996 based on continued strength in Canada and strong contributions from both Europe and Chile. Consistent with Finning's continuing diversification strategy, sales outside of Canada were 51% of consolidated revenue compared with 47% in 1995. Revenue for the year ended December 31, 1996 increased 7% to a record $1,874.7 million from $1,752.0 million in 1995. A summary of the components of revenue is contained in the following table:

REVENUE BY ACTIVITY *(dollars in thousands)*

	Revenue (000's)				Growth
	1996		1995		%
New equipment	$ 904,732	48%	$ 891,969	51%	1.4%
Used equipment	279,403	15%	211,814	12%	31.9%
Customer service	630,310	34%	593,042	34%	6.3%
Finance and other	60,264	3%	55,166	3%	9.2%
	$1,874,709	100%	$1,751,991	100%	7.0%

In 1996, new equipment increased by $12.8 million from the prior year. Both Europe and Chile achieved growth in sales of new equipment of 13.5% and 13.1%, respectively, offset by an 11.1% reduction in Canada. The increase was driven by higher demand in the plant hire industry in Europe and continuing growth in the mining sector in Chile. In Canada, a reduction in the delivery of high unit value equipment to the mining industry contributed to the decline.

Sales of used equipment, which increased by $67.6 million in 1996, contributed more than 55% of the increase in total revenue in the year. Used equipment sales in each of Finning's geographic segments improved, the most significant growth coming from the Canadian operation's international and domestic markets. Canada and Europe have designated international sales groups which focus on selling used equipment internationally. Both groups experienced significant growth in their operations in 1996 which is expected to continue into the next year.

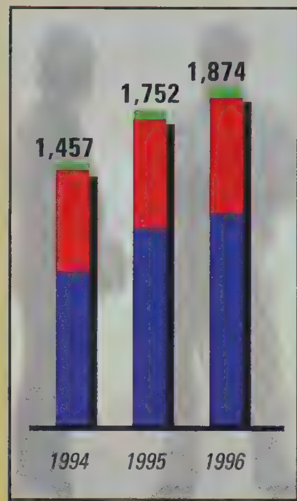
Customer service revenue — Finning's second largest revenue component — increased by $37.3 million or 6.3% from the prior year. The most significant improvement came from the Chilean operations. Chile is in its third full year of operation since it was acquired in August 1993 and large deliveries in the previous years have translated into higher demand for parts and service in 1996.

The growth in new and used equipment was 75% attributable to volume increases, while 47% of the growth in customer service revenues was volume-related. Overall price increases, implemented to offset higher supplier prices and wage costs, averaged 3% in 1996 and the effect of exchange rate changes was minimal.

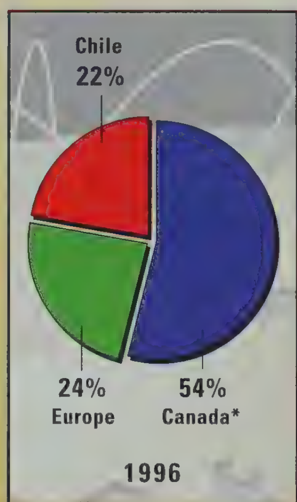
Finance income increased by 9.2% from the prior year. Finance assets grew by $78 million to $587.4 million, which is 15.3% higher than the asset base at December 31, 1995. In December 1996, Chile's finance portfolio was sold to a subsidiary of Caterpillar Financial Services Corporation (CFSC) for its book value of $33.4 million and it is management's intention to sell Britain's finance portfolio to CFSC in 1997. The two combined portfolios contributed $18.3 million of revenue in 1996.

During 1996, Canada entered into a joint marketing agreement with CFSC. Under this agreement, personnel from both Finning and CFSC will market a common array of financial services to customers in the Canadian territory. Finning will continue to provide rental, leasing and rental-purchase financing while CFSC will offer conditional sales financing. It is the intention of the Canadian operations to maintain a robust finance portfolio (valued at $424.2 milllion at year-end 1996) and continued growth is expected in 1997.

REVENUE BY ACTIVITY
(millions of dollars)



REVENUE BY GEOGRAPHIC SEGMENT



*(*includes sales of used equipment and used parts to customers outside of Canada)*

In percentage terms, the revenue generated by Finning's geographic segments changed primarily due to the growth in revenue from Chile and Europe.

REVENUE BY GEOGRAPHIC SEGMENT *(dollars in thousands)*

	Revenue (000's)				Growth
	1996		1995		%
Canada*	$1,008,000	54%	$ 981,285	56%	2.7%
Europe	458,093	24%	420,056	24%	9.1%
Chile	408,616	22%	350,650	20%	16.5%
	$1,874,709	100%	$1,751,991	100%	7.0%

* includes sales of used equipment to customers outside of Canada

Net earnings for 1996 improved to a record $88.2 million or $2.26 per common share compared with $77.5 million or $2.00 per common share in 1995. Included in net earnings is an after-tax gain of $7.5 million from the disposition of real estate in Europe, contributing $0.19 earnings per share. Excluding the gain, net earnings were $80.6 or 4.2% higher than 1995. This net increase in earnings was exclusively from Chile, a reflection of strong revenues combined with a 0.7% improvement in net income as a percentage of revenue. Net earnings contributed by each of Finning's geographic segments are shown in the following table:

NET INCOME BY GEOGRAPHIC SEGMENT *(dollars in thousands)*

	Net Earnings (000's)				Growth
	1996		1995		%
Canada*	$43,267	49%	$43,668	56%	(0.9)%
Europe	27,171	31%	20,976	27%	29.5%
Chile	17,746	20%	12,849	17%	38.1%
	$88,184	100%	$77,493	100%	13.8%

* includes sales of used equipment to customers outside of Canada

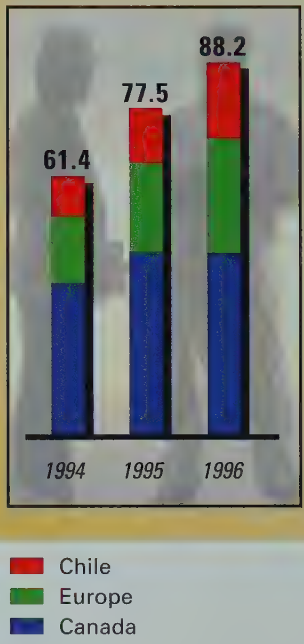
The Company is proceeding with its negotiations with Unilever PLC for the purchase of the Caterpillar dealership in the north, east and southeast regions of England, currently held by Unilever's subsidiary H. Leverton Limited. Finning looks forward to growth in its international operations in 1997 with the potential acquisition of H. Leverton and expects continued improvement in earnings based on modest increases in demand from both Canada and Europe and strong growth in Chile.

Canadian Operations

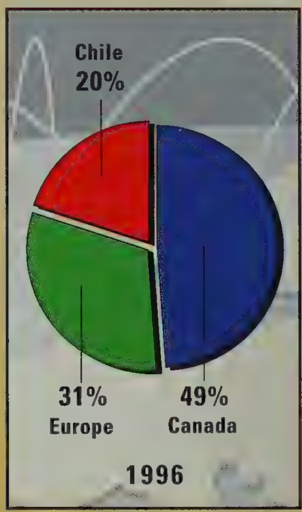
Revenue from Canadian operations increased 2.7% to a record $1,008 million in 1996 from $981.3 million in 1995. Equipment revenue, which totalled $601.6 million, was 2.6% or $15.2 million higher in 1996 and accounted for 56.9% of the increase.

New equipment unit deliveries were consistent with 1995 levels; a stronger demand in the petroleum, construction, and agriculture industries was offset by reduced demand in forestry and mining.

NET INCOME BY GEOGRAPHIC SEGMENT
(millions of dollars)



NET INCOME BY GEOGRAPHIC SEGMENT



The petroleum industry experienced a recovery in 1996 which led to increased sales of oil field and pipeline construction equipment. Unit deliveries to the petroleum industry increased by 15.3%.

Unit deliveries to the forestry industry decreased by 12.3%. Lower prices for pulp and a softening in the solid wood sector contributed to the decrease.

In dollar terms, new equipment revenue decreased by 11.1% from 1995 due to a reduction in high unit value equipment deliveries to the mining industry in 1996 and a shift towards leasing of equipment rather than direct sales.

Used equipment revenue, however, increased by 41.7% over 1995. The international market was again very strong in 1996 with continued demand for quality used equipment worldwide. In addition, the domestic market strengthened considerably, primarily due to increased demand in the petroleum industry.

Higher transaction prices on equipment, which averaged approximately 2%, were in response to supplier price increases of approximately 3%. The increase in supplier prices was partially offset by a strengthening of the Canadian dollar against the U.S. dollar on which Canadian equipment prices are based.

Customer service revenue at $364.4 million increased by 2.5% over 1995 levels primarily due to price increases. The price increases were in response to an increase in supplier prices and mechanics' hourly pay rates. This increase was partially offset by the strengthening of the Canadian dollar against the U.S. dollar on which Canadian parts prices are based.

Customer service volumes remained stable in 1996; lower revenue due to the two-week Alberta strike in the second quarter of 1996 and reduced activity in the forestry industry were offset by increased sales to the petroleum and mining industries.

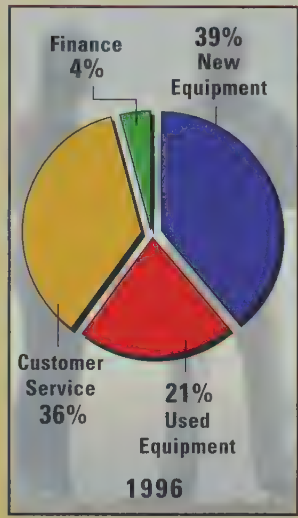
Finance and other income from Canadian operations was 6.5% higher than 1995 primarily due to an increase in the finance portfolio which grew from $343.6 million at December 31, 1995 to $424.2 million at December 31, 1996. The number of leases and notes outstanding grew by 10.9% and 5.9%, respectively and the number of rental-purchase contracts grew by 38.5%.

The growth of the energy-based economy of Alberta continued to provide a diversification of markets for Canadian operations and has contributed to a reduced dependency on the forestry-based economy of British Columbia.

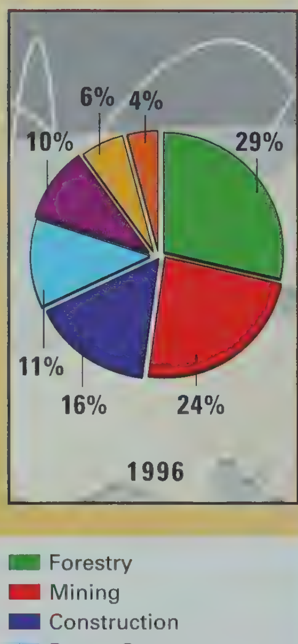
Net earnings from Canadian operations were $43.3 million, a $0.4 million reduction from 1995. Factors affecting net earnings were:

(1) slightly lower gross margins than 1995 due to the revenue mix shift from new to used equipment which generally has lower margins;
(2) higher general and administrative expenditures in 1996 based on additional costs related to the Alberta strike and the implementation costs related to the conversion of the Company's information system to Caterpillar's Dealer Business System (DBS); and
(3) reduced interest costs due to lower average borrowing rates.

CANADIAN REVENUE
(by activity)



CANADIAN PRIME PRODUCT DELIVERIES BY MARKET
(converted to sales dollars)



European Operations

Revenue from European operations increased 9.1% to a record $458.1 million in 1996 from $420.1 million in 1995. In pounds sterling, revenue increased by 11% from £193.8 million in 1995 to £215.2 million in 1996.

Equipment revenue increased 14.1% in 1996 in pounds sterling and accounted for 87.2% of Europe's total revenue increase in that year. Net of selling price increases and foreign exchange effects, equipment volumes increased 11.7% from 1995 levels, reflecting strong demand and increased unit deliveries into the plant hire, power generation and mining industries, partially offset by a decline in unit deliveries to the construction and quarrying industries.

In the United Kingdom, improved housing starts and private commercial investment helped to balance reduced government expenditures on roads and other infrastructure projects. Construction output improved over the previous year's level leading to continued investment by the plant hire industry. The plant hire industry provides both equipment and operating personnel as a package. There is a growing trend in the construction industry away from direct investment in plant and towards the utilization of specialist plant hirers. As a result, deliveries to the plant hire industry increased by 20.5% and to the construction industry decreased by 29%. This trend is expected to continue.

Deliveries to the power generation industry increased 11.4% from prior year levels. The industrial sector, which uses engines for rock crushers and other powered equipment, continued to provide the majority of demand with 65.2% of total unit deliveries in 1996. Power generation is expected to be a growth area in 1997 with increased sales in the commercial marine market. In addition, rental activity in the power generation market was high in 1996 and is expected to continue in 1997.

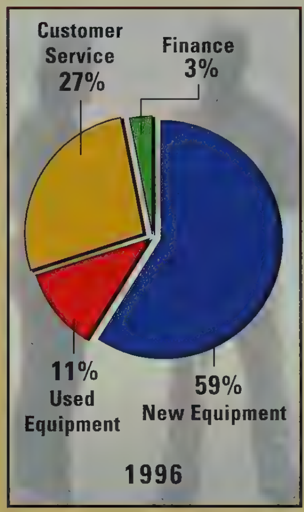
The quarrying industry experienced exceptional demand for the replacement of aged equipment during the period 1993 to 1995 following the recovery from the recession of the early 1990s. In 1996 there was a return to the more traditional level of demand from this industry, resulting in a decrease of 39.3% in unit deliveries from the prior year.

Deliveries to the mining industry increased 68.9% in 1996 compared with 1995. Output in the mining industry remains broadly static; however, the purchasing cycle of a number of large open pit mining contractors coincided to produce high unit deliveries in 1996.

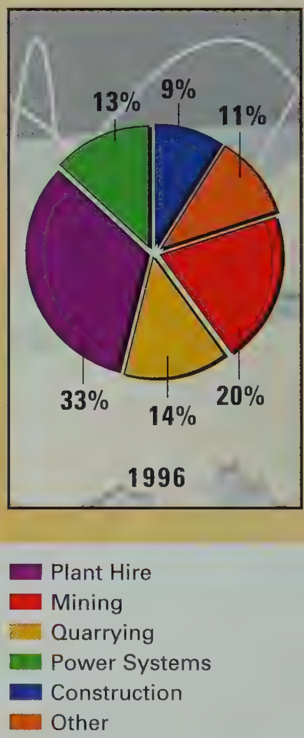
Customer service revenue, in pounds sterling, increased 4.9% in 1996, reflecting higher prices, implemented to offset supplier price and wage increases, and the increased level of equipment deliveries. The offshore oil industry was particularly buoyant in 1996.

Net earnings showed significant improvement, increasing 29.5% to a record $27.2 million (£12.8 million) in 1996 from $21.0 million (£9.7 million) in 1995. The results contain an after-tax gain of $7.5 million (£3.5 million) from the sale of the Glasgow branch in Scotland, the Cardiff branch in Wales and property in Holland. The property sales are part of the Company's plan to relocate to more modern premises. Excluding the property gain, net earnings decreased by 6% from the prior year.

EUROPEAN REVENUE
(by activity)



EUROPEAN PRIME PRODUCT DELIVERIES BY MARKET
(converted to sales dollars)



The year over year results were further affected by the following factors:

(1) higher equipment revenues partially offset by lower margins on both new and used equipment sales due to strong pricing competition in the marketplace;
(2) higher parts margins reflecting a change in product mix to higher margin products;
(3) higher service revenue partially offset by lower margins reflecting strong pricing pressure from competition;
(4) increased costs associated with the implementation of Caterpillar's Dealer Business System (DBS); and
(5) increased interest expense due to higher fixed interest costs and higher borrowing levels needed to maintain equipment inventories and finance assets.

In conjunction with the purchase of the assets of H. Leverton Limited, Finning intends to sell its finance portfolio in Britain and to withdraw as the Caterpillar dealer in Poland. The results of operations in Poland were not significant in 1996, with a minimal loss being incurred on revenues of $28.7 million. The finance portfolio in Europe contributed $14.4 million (£6.8 million) to revenue in 1996.

Chilean Operations

Revenue from Chilean operations showed continued strength, increasing 16.5% to $408.6 million in 1996 from $350.7 million in 1995. Equipment revenue at $260.3 million was 13.3% or $30.5 million higher in 1996 and accounted for 52.8% of this segment's revenue increase in 1996. New and used equipment sales increased by 13.1% and 18.4%, respectively.

Equipment volumes were 9% higher than prior year levels and selling prices on equipment increased by 4% on average, a reflection of higher supplier prices. In 1996, the effect of exchange rate changes on revenue was insignificant as the Chilean peso strengthened during the year in real terms in relation to the U.S. dollar and the U.S. dollar marginally weakened against the Canadian dollar. While the Chilean peso is the local currency in Chile, much of the revenue recorded from operations in Chile is denominated in U.S. dollars, especially large sales into mining projects.

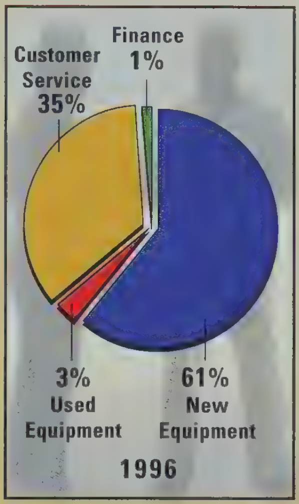
A strong resource-based economy with a growing infrastructure helped strengthen equipment revenues. The Company's ability to sell to large mining companies operating in Chile resulted in a 13.1% increase in mining revenue in 1996.

Sales to the forestry industry declined by 37.5% in 1996 to $7.7 million. The decrease was largely due to the worldwide decline in cellulose prices. As market conditions improve, the Company expects to see an improvement in sales to this sector.

Kenworth truck sales were $21.8 million compared with $22.9 million in 1995. Strong competition in the year combined with the transition to a new location on the Pan American Highway are key reasons for the lower than expected results. The Company expects to see an improvement in volume and market share in 1997.

Rental revenue of $13 million was significantly higher than the $4.7 million achieved in 1995. The rental fleet increased 23.9% and enjoyed steady utilization throughout the year.

CHILEAN REVENUE
(by activity)



Customer service revenue increased by $24.8 million, up 20.7% from the prior year, a reflection of the general increase in business activity. In addition, a large increase in unit population during the past three years has translated into increased parts and service support in 1996. Customer service volumes were up 13% over 1995 levels and accounted for the majority of the increase.

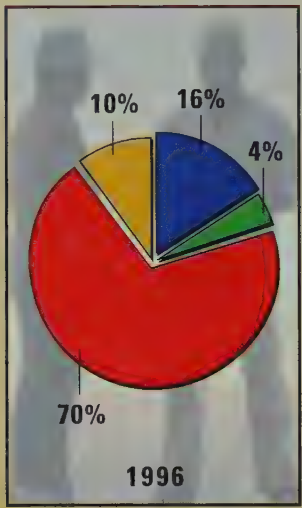
Net income increased to $17.7 million, or 38.1% compared with the prior year. The increase in 1996 was higher than the 36.5% growth in net income reported the previous year. Chile contributed 20% of consolidated net income compared with 17% in the prior year. Other contributing factors were:

(1) an improvement in overall gross margins, particularly equipment and parts margins. In addition, the slight reduction in revenue from equipment sales to 63.7% compared with 65.5% in 1995 represents an improvement in revenue mix towards higher margin support business; and
(2) higher interest costs due to increased borrowing levels used to finance an increase in equipment and parts inventories to support business demands. Interest rates were comparable with a slight increase in local borrowing rates offset by a small drop in U.S. dollar-based borrowing rates.

In December, 1996, the finance portfolio was sold to a subsidiary of Caterpillar Financial Services Corporation (CFSC). CFSC will take over the responsibility for providing our customers with financial solutions in the Chilean market. The finance portfolio contributed revenue of $3.8 million in 1996.

During November of 1996, three new facilities — the Coquimbo and Concepcion branches and the Kenworth Truck premises near Santiago — were inaugurated, thus emphasizing Finning's commitment towards providing excellence in selling and servicing the different equipment lines handled. The new facilities, which are strategically located and functional in their design, will help service the growth in demand which is expected for 1997 and beyond.

CHILEAN PRIME PRODUCT DELIVERIES BY MARKET
(converted to sales dollars)



Liquidity and Capital Resources

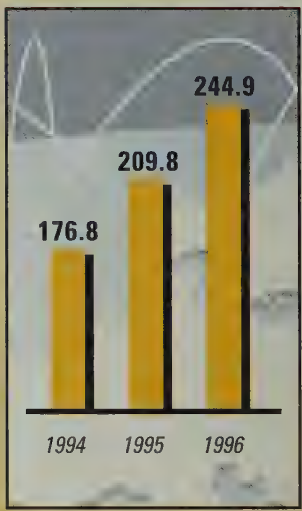
Management assesses Finning's liquidity in terms of its ability to generate sufficient cash flows to fund its operations. Net cash flows are affected by:

(1) operating activities, including the level of accounts receivable, inventories, accounts payable and financing provided to customers;
(2) capital expenditure and dividend levels; and
(3) external financing, including bank credit lines, commercial paper and other capital markets, providing both short and long-term financing.

Cash flow from operations, before changes in operating assets and liabilities, was $244.9 million in 1996, up 16.7% from 1995. The improvement was primarily due to higher earnings in Chile and a $7.5 million gain on the sale of property in Europe.

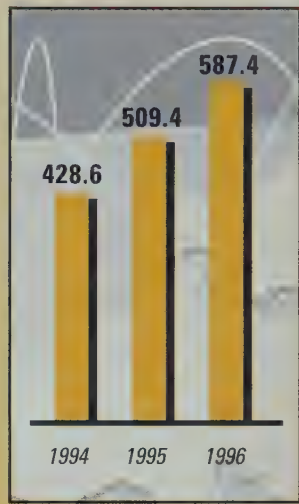
Cash used in operating activities was $63.2 million, down 57.9% from 1995. The generation of cash from increased business activity in most of Finning's markets was offset by higher accounts receivable, a result of higher business volume; and increased inventories to meet delivery requirements. Cash was also used to expand customer financing activities (conditional sales contracts and leasing), which grew by 15.3% in 1996.

CASH FLOW FROM OPERATIONS
(millions of dollars)



At December 31, 1996, the portfolio of finance assets totalled $587.4 million ($509.4 million at December 31, 1995). The finance assets are supported by a combination of debt and equity. Finning applies a conservative debt to equity ratio of 6:1 to its finance operation to apportion its capital structure between its operating and financing activities. On this basis, total debt and shareholders' equity have been allocated between the operating and financing functions. Deferred income taxes have been allocated based on the assets and liabilities assigned to the finance and operating functions. The following table illustrates the impact of this segregation on Finning's capital structure.

FINANCE ASSETS
(millions of dollars)



CAPITAL STRUCTURE *(dollars in thousands)*

	1996 (000's)		
	Finance	Operations	Consolidated
Assets	$587,374	$1,223,440	$1,810,814
Liabilities & shareholders' equity			
Short term borrowings and term loans	$481,140	$ 414,286	$ 895,426
Deferred income taxes	26,044	13,465	39,509
Other liabilities	–	279,800	279,800
	507,184	707,551	1,214,735
Shareholders' equity	80,190	515,889	596,079
	$587,374	$1,223,440	$1,810,814
Debt to equity ratio	6.00:1	0.80:1	1.50:1

	1995 (000's)		
	Finance	Operations	Consolidated
Assets	$509,413	$1,098,694	$1,608,107
Liabilities & shareholders' equity			
Short term borrowings and term loans	$417,801	$ 367,897	$ 785,698
Deferred income taxes	21,978	8,596	30,574
Other liabilities	–	285,094	285,094
	439,779	661,587	1,101,366
Shareholders' equity	69,634	437,107	506,741
	$509,413	$1,098,694	$1,608,107
Debt to equity ratio	6.00:1	0.84:1	1.55:1

Finning's debt to equity ratio of operations (excluding finance activities) improved from 0.84:1 to 0.80:1 primarily due to higher equity levels.

Finning offers fixed and floating rate financing to customers. These services are financed through a mixture of floating and fixed rate borrowings. At December 31, 1996, approximately 53% (at December 31, 1995 approximately 61%) of the finance portfolio was at fixed rates. Finning has a policy of arranging its financing so that the fixed rate financing offered to its customers is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. The Company enters into interest rate swap agreements which fix the effective interest rate on this portion of bank indebtedness. This serves as an effective, flexible method of matching fixed rate terms provided to customers with fixed rate debt obligations. At December 31, 1996, the Company had interest rate swap agreements which fixed the semi-annual interest rate on $209,012,000 (1995 - $192,563,000) of bank debt at a weighted average rate of 6.88% (1995 - 7.51%). Swap agreements outstanding at year-end for $127,705,000 (1995 - $109,535,000) extend beyond one year for varying periods up to December, 2001 at an average interest rate of 6.75% (1995 - 7.43%).

At December 31, 1996, term debt increased by $126.1 million over 1995. During 1996, the Company, through a public offering, issued debentures in the amount of $75 million maturing on December 8, 2006. Net proceeds of $74 million after underwriting fees and issue costs were utilized to reduce short-term operating debt.

Total fixed rate term debt at December 31, 1996 was comprised of a £25.0 million loan ($58.6 million) at 11.81% maturing on May 8, 1997, Series A Senior Debentures of $75 million at 8.35%, maturing on March 22, 2004, and Series B Senior Debentures of $75 million at 6.6% maturing on December 8, 2006. Term debt, which provides funding stability, accounted for 53.1% (1995 - 44.5%) of total debt outstanding at year-end.

Gross capital expenditures for 1996 were $43.1 million compared with the previous year's level of $25.8 million. Capital expenditures in 1996 included renovations and expansion of existing facilities, telecommunication equipment, computers, shop tools and vehicles used in customer service operations.

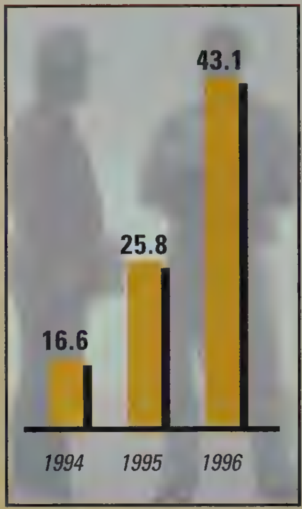
In Canada, major capital additions in 1996 were related to site acquisition and preparation costs in Port Kells, British Columbia for the consolidation of its branch facilities in the Lower Mainland.

In Europe, a new branch at Chesterfield was completed December, 1996, replacing a previously leased facility at Clay Cross. Branches in Glasgow and Cardiff were sold during 1996. The Company is currently leasing premises in those areas. A new branch in Cardiff is scheduled for completion in the second quarter of 1997. A search is currently underway for a suitable location for building a new branch in the Glasgow area.

In Chile, major capital additions in 1996 included the construction of the Coquimbo and Concepcion branches and the new Kenworth Truck facility. Construction of a Parts Distribution Centre in Antofagasta is underway and is scheduled for completion in April, 1997. This centre will become a vital link in the parts distribution system, expediting country-wide spare parts handling and distribution using state of the art storage, retrieval and data processing systems. In addition, a new site has been selected for purchase during the first quarter of 1997 in order to build new facilities for the head office and the Santiago branch.

Other significant capital expenditures in all operations related to the implementation of Caterpillar's Dealer Business System (DBS). DBS was implemented in September, 1996 in Chile and implementation is planned for July, 1997 in Canada and two months later in Europe. Total DBS-related capital expenditures in all operations to the end of 1997 are estimated to be $6.3 million.

GROSS CAPITAL EXPENDITURES
(millions of dollars)



The Board of Directors, in setting dividend payments, considers the Company's recent and projected earnings and its capital investment requirements. Dividends on common shares were $15.6 million or $0.40 per share in 1996 compared with $15.5 million or $0.40 per share in 1995.

The preferred shares outstanding at December 31, 1996 amounted to $1.5 million ($2.4 million at December 31, 1995) and are convertible into common shares at a conversion rate of $12.735 per common share.

The Company has an employee common share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at market values. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. The plan is cancellable by the Company at any time. At December 31, 1996, 49.8% of employees were participating in this plan (38.8% in 1995).

As a result of improved financial strength and diversification, Finning achieved an "A (low)" debt rating in the second quarter of 1995 from the two Canadian debt rating agencies. The Company has access to lower cost funding in a variety of financial markets.

After providing for these changes in cash flow, short-term debt decreased by $16.3 million in 1996 to $420 million. Management believes that available sources of funds are adequate to meet the operating requirements of Finning.

Risks and Uncertainties

Finning's financial performance is subject to two sources of currency exchange risk. The first source of currency exchange risk relates to fluctuations in the purchase price of inventory. Canada and Chile source the majority of their product from the United States and, as a consequence, the effective transaction price for most equipment and parts is affected by exchange rate movements. Finning is generally able to realize the cost of exchange rate movements in its transaction prices. The second source of exchange risk relates to the fact that Finning's European and Chilean operations are recorded in Finning's financial statements in Canadian dollars, while those operations conduct business primarily in pounds sterling in Europe, and Chilean pesos and United States dollars in Chile. Changes in the pound sterling, Chilean peso and United States dollar to the Canadian dollar exchange rate directly affect the financial performance in Canadian dollars of Finning's European and Chilean operations.

More than 90% of Finning's equipment, parts and service sales involves Caterpillar products, consequently Caterpillar is Finning's largest supplier. Finning has had a strong relationship with Caterpillar since 1933 and management is confident this will continue into the future.

Financial Derivatives

Finning uses various financial instruments such as interest-rate swaps as hedges against actual assets or liabilities. For example, Finning hedges the finance portfolio with funding of similar rates and terms. Finning does not use derivatives for speculative purposes. The Company continually evaluates counterparties to further reduce risk.


CAMBRIAN
CAT
CAMBRIAN
STONE

Management's Report to the Shareholders

The Consolidated Financial Statements of the Company have been prepared by management in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgements of all information available up to January 30, 1997.

The Company maintains an accounting system and related controls to provide management with reasonable assurance that transactions are executed and recorded in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are reliable for preparation of financial statements.

The Company's independent auditors, appointed by the shareholders, express an opinion as to whether management's financial statements present fairly the Company's financial position, operating results and changes in financial position in accordance with generally accepted accounting principles.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with financial officers of the Company and the external auditors to review internal accounting controls, audit results, quarterly financial results and accounting principles and practices. In addition, the Audit Committee reports its findings to the Board of Directors which reviews and approves the Consolidated Financial Statements contained in this Annual Report.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to Consolidated Financial Statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

January 30, 1997
Vancouver, Canada

R.T. Mahler
Executive Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of Finning Ltd.:

We have audited the consolidated balance sheets of Finning Ltd. (a Canada corporation) as at December 31, 1996 and 1995 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

January 30, 1997
Vancouver, Canada

ARTHUR ANDERSEN & CO.
Chartered Accountants

***Left:* Specially-adapted Caterpillar wheel loader handles red-hot slag in British steel plant for Cambrian Stone Limited.**

Consolidated Balance Sheets

As at December 31 *(dollars in thousands)*

Assets	***1996***	*1995*
Accounts receivable	$ 297,054	$ 260,345
Inventories		
On-hand equipment	376,719	335,314
Rental equipment (Note 2)	136,362	126,192
Parts and supplies	185,417	169,320
	698,498	630,826
Finance assets		
Instalment notes receivable (Note 3)	260,329	255,683
Equipment leased to customers (Note 4)	327,045	253,730
	587,374	509,413
Land, buildings and equipment (Note 5)	181,526	159,794
Goodwill (Note 6)	46,362	47,729
	$1,810,814	$1,608,107

Liabilities and Shareholders' Equity		
Short-term debt (Note 7)	$ 419,962	$ 436,288
Accounts payable and accruals	270,238	259,643
Income taxes payable	9,562	25,450
Term debt (Notes 7 and 8)	475,464	349,410
Deferred income taxes	39,509	30,574
Total liabilities	1,214,735	1,101,365
Shareholders' equity		
Share capital (Note 10)	201,570	194,940
Retained earnings	383,232	310,735
Cumulative currency translation adjustments (Note 11)	11,277	1,067
Total shareholders' equity	596,079	506,742
	$1,810,814	$1,608,107

Approved by the Directors:

J.F. Shepard, *Director*

W.R. Wyman, *Director*

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Income and Retained Earnings

For the years ended December 31 *(dollars in thousands)*

	1996	*1995*
Revenue		
New equipment	$ 904,732	$ 891,969
Used equipment	279,403	211,814
Customer support services	630,310	593,042
Finance and other	60,264	55,166
Total revenue	1,874,709	1,751,991
Expenses		
Cost of sales	1,347,762	1,256,953
Selling, general and administrative	338,543	320,641
Finance cost and interest on other indebtedness (Notes 7 and 8)	59,901	55,005
	1,746,206	1,632,599
Income before provision for income taxes	128,503	119,392
Provision for income taxes (Note 13)	40,319	41,899
Net income	88,184	77,493
Dividends on preferred shares	87	169
Earnings attributable to common shares	88,097	77,324
Retained earnings, beginning of year	310,735	248,862
	398,832	326,186
Dividends on common shares	15,600	15,451
Retained earnings, end of year	$ 383,232	$ 310,735
Net income per share (Note 14)		
Basic	$ 2.26	$ 2.00
Fully diluted	$ 2.18	$ 1.95
Average number of common shares outstanding (Note 14)	39,001,620	38,620,871

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

For the years ended December 31 *(dollars in thousands)*

	1996	1995
Cash generated from (used in) operations:		
Net income	$ 88,184	$ 77,493
Add items not affecting cash		
Depreciation	155,527	133,405
Amortization of goodwill	1,367	1,367
Deferred income taxes	(547)	(3,057)
Other items, net	378	619
	244,909	209,827
Changes in operating assets and liabilities:		
Accounts receivable	(32,757)	(41,439)
Inventories		
Equipment	(92,570)	(153,972)
Parts and supplies	(17,206)	(3,163)
Finance Assets		
Instalment notes receivable	1,804	(54,836)
Equipment leased to customers, net of disposals	(159,302)	(111,203)
Accounts payable and accruals	574	6,401
Income taxes payable	(8,602)	(1,708)
Cash used in operations	(63,150)	(150,093)
Dividends paid	(15,687)	(15,620)
Cash investment in land, buildings and equipment, net of disposals	(29,760)	(24,970)
Cash generated from (used in) financing activities:		
Term loans	39,794	36,591
Issue of Series B Senior Debentures, net of issue costs	74,005	–
Conversion and redemption of preferred shares	(937)	(244)
Issue of common shares on conversion of preferred shares and exercise of stock options	7,567	2,783
Currency translation adjustments	4,494	2,739
Cash generated from financing activities	124,923	41,869
Decrease (increase) in short-term debt	16,326	(148,814)
Short-term debt at beginning of year	436,288	287,474
Short-term debt at end of year	$419,962	$436,288

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

December 31, 1996 and 1995

1. Summary of Significant Accounting Policies

These Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The significant accounting policies used in these Consolidated Financial Statements are as follows:

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. Operating subsidiaries include Finning (UK) Ltd. (formerly Finning Limited), Finning Equipment Hire Limited, Finning Finance Limited, Finning Poland Sp. z o.o., and Gildemeister S.A.C.

Currency Translation

Transactions undertaken in foreign currencies are translated into Canadian dollars at approximate exchange rates prevailing at the time the transactions occurred.

Account balances denominated in foreign currencies are translated into Canadian dollars as follows:

> Monetary assets and liabilities at exchange rates in effect at the balance sheet dates; non-monetary items at historical exchange rates;
>
> Exchange gains and losses are included in income except where monetary liabilities are considered to be hedges, in which case they are deferred and accounted for in conjunction with the hedged asset.

Financial statements of self-sustaining foreign operations are translated into Canadian dollars as follows:

> Assets and liabilities using the exchange rates in effect at the balance sheet dates;
>
> Revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred;
>
> Unrealized translation gains and losses are deferred and included as a separate component of shareholders' equity. These cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the self-sustaining foreign operation;
>
> The Company has hedged its operations in its foreign subsidiaries by borrowing funds in foreign currency. Exchange gains or losses are accounted for in the cumulative currency translation adjustments.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item, actual cost basis for both on-hand and rental equipment. For parts and supplies, approximately 66% is recorded on a first-in, first-out basis and the remainder on an average cost basis.

Rental equipment inventories are depreciated to the estimated residual value of each unit based on usage.

Notes to Consolidated Financial Statements

Equipment Leased to Customers

Depreciation of equipment leased to customers is provided in the accounts in equal monthly amounts over the terms of the individual leases after recognizing the estimated residual value of each unit at the end of each lease.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, net of accumulated depreciation.

Buildings and equipment are depreciated over their estimated useful lives on a declining balance basis using the following annual rates:

Buildings	5%
General equipment	20%-30%
Automotive equipment	30%

Revenue Recognition

Revenue from sales of products and services is recognized at the time of shipment of products to, and performance of services for customers. Equipment lease and rental revenue is recognized over the term of the lease or rental. Finance income is recognized as earned.

Pension Costs

The Company and its subsidiaries have defined benefit and defined contribution pension plans.

For defined benefit pension plans, the cost of pension benefits is based on reports prepared by independent actuaries every two years, using management's best estimate assumptions and a projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions and experience gains or losses are amortized on a straight line basis over the expected average remaining service life of the employee groups covered by the plans.

For defined contribution plans, the cost of pension benefits is a fixed percentage of member earnings for the year.

Goodwill

Goodwill acquired on the acquisition of subsidiaries is amortized to income on a straight line basis over 40 years.

The value of goodwill is determined from the undiscounted future earnings of the related business. Goodwill is evaluated annually and will be written down when its value has been determined to be less than its carrying amount.

2. Rental Equipment

(dollars in thousands)	**1996**	1995
Rental equipment	$207,442	$181,820
Less accumulated depreciation	(71,080)	(55,628)
	$136,362	$126,192

Depreciation of rental equipment for the year ended December 31, 1996 was $47,565,000 (1995 - $38,090,000). See Note 4 for change in classification of customer rental-purchase contracts.

3. Instalment Notes Receivable

Instalment notes receivable are recorded net of unearned finance charges and include $136,265,000 due after one year (1995 - $190,630,000).

4. Equipment Leased to Customers

(dollars in thousands)	**1996**	1995
Cost	$472,700	$378,082
Less accumulated depreciation	(145,655)	(124,352)
	$327,045	$253,730

Depreciation of equipment leased to customers for the year ended December 31, 1996 was $91,588,000 (1995 - $80,212,000).

During the year, the Company changed its method of presenting customer rental-purchase contracts to reflect them as finance assets. This equipment finance program totalled $71,332,000 at December 31, 1996 (1995 - $40,712,000) and has been reclassified from rental equipment to equipment leased to customers. Depreciation of customer rental-purchase contracts for the year ended December 31, 1996 was $27,252,000 (1995 - $24,476,000).

5. Land, Buildings and Equipment

(dollars in thousands)	**1996**	1995
Land	$ 37,877	$ 34,758
Buildings and equipment	284,576	252,810
Less accumulated depreciation	(140,927)	(127,774)
	143,649	125,036
	$181,526	$159,794

Depreciation of buildings and equipment for the year ended December 31, 1996 was $16,374,000 (1995 - $15,103,000).

6. Goodwill

(dollars in thousands)	**1996**	1995
Purchased goodwill	$ 54,628	$ 54,628
Accumulated amortization	(8,266)	(6,899)
	$ 46,362	$ 47,729

7. Short-Term Debt

(dollars in thousands)	**1996**	1995
Loans	$152,870	$173,216
Commercial paper and bankers' acceptances	267,092	263,072
	$419,962	$436,288

The Company has entered into interest rate swap agreements which fix the semi-annual interest rate on $209,012,000 (1995 - $192,563,000) of debt at a weighted average interest rate of 6.88% (1995 - 7.51%). Agreements for $127,705,000 (1995 - $109,535,000) extend beyond one year for varying periods up to December, 2001 at an average interest rate of 6.75% (1995 - 7.43%).

8. Term Debt

(dollars in thousands)	**1996**	1995
Loan at 11.81% maturing May 8, 1997 of £25,000,000 (unsecured)	$ 58,635	$ 53,005
Floating rate loan bearing a semi-annual interest rate of 7.08% at December 31, 1996 (1995 - 7.34%) maturing June 22, 2000 of £25,000,000 (unsecured)	58,635	53,005
Series A Senior Debentures at 8.35% with interest payable semi-annually, maturing March 22, 2004 (unsecured)	75,000	75,000
Series B Senior Debentures at 6.60% with interest payable semi-annually, maturing December 8, 2006 (unsecured)	75,000	–
Term bank loans bearing interest at floating rates which at December 31, 1996 averaged 3.58% (1995 - 6.47%). These loans are repayable March 31, 1999, August 31, 1999 and December 31, 2002 (unsecured)	179,788	159,774
Other loans denominated in U.S. dollars and Chilean pesos maturing between 1998 and 2004	28,406	8,626
	$475,464	$349,410
Term loans due within one year	$ 60,050	$ 1,550

Interest expense in 1996, on indebtedness incurred for a period greater than one year, was $26,548,000 (1995 - $29,150,000).

Estimated principal repayments for the next five years are:

1997	$60,050
1998	4,737
1999	84,643
2000	62,620
2001	3,458

9. Financial Instruments

The following table reflects the carrying value and estimated fair value of the Company's financial instruments:

(dollars in thousands)	**1996** Book Value	**1996** Market Value	1995 Book Value	1995 Market Value
Financial Instruments:				
Notes receivable	$260,000	$268,000	$256,000	$266,000
Short-term borrowings & term debt	$895,000	$904,000	$785,000	$793,000
Off Balance Sheet Hedges:				
Interest rate swaps	$209,000	$213,000	$192,000	$197,000
Forward exchange contracts	$ 13,000	$ 13,300	–	–

Financial instruments which subject the Company to credit risk are notes receivable and hedges such as interest rate swaps and forward exchange contracts. At the balance sheet dates there were no significant concentrations of credit risk from exposure to single debtors. The Company's hedges are contracted with high quality financial institutions as counterparties and, as a result, concentration of risk is limited.

10. Share Capital

Authorized

Unlimited	Preferred shares without par value of which 4,400,000 are designated as Cumulative Redeemable Convertible Preferred shares
Unlimited	Common shares

Issued and outstanding

(dollars in thousands)		**1996**	1995
Nil	Preferred shares, Series D (1995 - 54,270)	$ –	$ 543
148,000	Preferred shares, Series E (1995 - 187,400)	1,480	1,874
39,273,475	Common shares (1995 - 38,721,322)	200,090	192,523
		$201,570	$194,940

Common Shares

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar Inc. are fundamental to its business and any change in control must be approved by Caterpillar.

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a permitted bidder, bids to acquire or acquires 20% or more of the Company's common shares. The rights will then separate and will ultimately entitle each holder of common shares (other than the bidder) to purchase common shares of the Company at a 50% discount to the then market price. The rights may also be triggered by a third party proposal for merger, amalgamation or a similar transaction. The rights will expire on September 13, 1999 unless redeemed earlier by the Board of Directors.

The plan will not be triggered if a bid meets certain criteria (a permitted bidder). These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the Takeover Bid (voting shares tendered may be withdrawn until taken up and paid for); and
- the Takeover Bid expires not less than 75 days after the date of the bid circular.

A summary of the changes in common shares is as follows:

(dollars in thousands)	**1996**		1995	
	Shares	**Amount**	**Shares**	**Amount**
Balance, beginning of year	38,721,322	$192,523	38,512,752	$189,740
Conversion of 54,270 Series D (1995 - 6,000) and 39,400 Series E (1995 - 18,350) preferred shares	93,994	937	21,370	244
Exercise of stock options	458,159	6,630	187,200	2,539
Balance, end of year	39,273,475	$200,090	38,721,322	$192,523

Preferred Shares

The preferred shares are issuable in series and will have such additional rights and restrictions as will be determined by the Board of Directors prior to their being issued.

During 1996, the remaining 54,270 outstanding Series D preferred shares were converted in accordance with the terms of the plan (1995 - 6,000).

Series E Preferred Shares

The preferred shares were issued under terms of an employee and director share purchase plan and are redeemable by the Company at its option or retractable at the option of the holder at the issue price.

The cumulative preferential cash dividends on the preferred shares are payable quarterly based on the prime interest rate of a specified Canadian chartered bank. The applicable rate for the preferred shares, and prices at which the preferred shares are convertible into common shares, are as follows:

	Dividend Rate as a % of the prime interest rate	Conversion Price
Series E	80% of prime	$12.735

These preferred shares may be converted into common shares at the option of the holder after two years and up to ten years following the date of issue. All preferred shares outstanding are presently convertible into common shares.

Stock Options

The Company has several stock option plans for employees and directors, the details of which are as follows:

	1996	
	Shares	Option Price
Options outstanding, beginning of year	1,779,317	$10.98 to $21.61
Issued	474,700	$23.72
Exercised	(458,159)	$10.98 to $21.61
Options outstanding, end of year	1,795,858	$10.98 to $23.72

A total of 874,012 options were exercisable at December 31, 1996 with the remaining options outstanding exercisable at various times to February 13, 2006.

11. Cumulative Currency Translation Adjustments

(dollars in thousands)	**1996**	1995
Balance, beginning of year	$ 1,067	$ 7,256
Gain realized during the year	–	(635)
Translation adjustments for the year	10,210	(5,554)
Balance, end of year	$11,277	$ 1,067

Translation gains or losses on the consolidation of foreign subsidiaries financial statements are accumulated in this account. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. At December 31, 1996, 1995 and 1994, the Canadian dollar exchange rates against the UK pound sterling were 2.3454, 2.1202 and 2.1961, respectively, and the Chilean peso exchange rates against the Canadian dollar were 310, 291 and 281, respectively.

During 1995, a dividend of 3,500,000 pounds sterling was paid from Finning Holdings Limited (U.K.) to Finning Ltd. (Canada) which generated a foreign exchange gain of $635,000.

12. Pension Plans

The Company's obligations for pension benefits, under its defined benefit plans at year end, were estimated by the plans' actuaries to be $232,029,000 (1995 - $208,655,000). Pension plan assets at December 31, 1996, on an adjusted market value basis, were $256,248,000 (1995 - $226,489,000).

13. Provision for Income Taxes

(dollars in thousands)	**1996**	1995
Current	$40,866	$44,956
Deferred	(547)	(3,057)
Provision for income taxes	$40,319	$41,899

The Company's provision for income taxes is determined as follows:

(dollars in thousands)	**1996**	1995
Combined federal and provincial income tax rates	43.65%	43.61%
Provision for income taxes based on the combined federal and provincial rates	$56,092	$52,067
Increase (decrease) in provision for income taxes resulting from:		
Lower effective rates on the earnings of foreign subsidiaries	(14,827)	(10,327)
Benefit of unrecognized tax loss carryforward of foreign subsidiary	(2,662)	(1,942)
Amortization of goodwill and increase in assigned asset value	745	740
Large corporation tax	1,024	703
Other items	(53)	658
Provision for income taxes	$40,319	$41,899

The Company's subsidiary, Gildemeister S.A.C., located in Chile, has a tax loss carryforward of $121,150,000 (1995 - $129,168,000), denominated in local currency, available to offset future taxable income. This loss was acquired on acquisition of the company in August, 1993. These losses are indexed to Chile's inflation rate which was 6.6% in 1996 and have no expiry date.

14. Net Income Per Share

Basic net income per common share has been calculated using the weighted average number of common shares outstanding during each year.

Fully diluted net income per common share has been calculated on the assumption that all the outstanding preferred shares were converted and all outstanding stock options were exercised at the beginning of the year.

15. Economic Relationships

The Company distributes and services heavy equipment and related products. The Company has dealership agreements with numerous equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations. Finning has a strong relationship with Caterpillar which has been ongoing since 1933.

16. Segmented Information

The Company and its subsidiaries have operated primarily in one industry during the year, that being the selling, servicing and financing of heavy equipment and related products.

Operating branches are located in the following geographic areas:

- In Canada, including British Columbia, Alberta, the western part of the Northwest Territories and the Yukon.
- In Europe, including the southwest and Industrial Midlands of England, Scotland, Wales and Poland.
- In Chile, throughout the country.

The reportable geographic segments are:

(dollars in thousands) **1996**

	Canada	**Europe**	**Chile**	**Segment Eliminations**	**Consolidated**
Revenue from external sources	$1,010,979	$460,174	$408,616	$ (5,060)	$1,874,709
Income before provision for income taxes	$ 71,888	$ 38,869	$ 17,746		$ 128,503
Provision for income taxes	28,621	11,698	–		40,319
Net income	$ 43,267	$ 27,171	$ 17,746		$ 88,184
Identifiable assets	$1,374,818	$403,640	$241,099	$(208,743)	$1,810,814

1995

	Canada	Europe	Chile	Segment Eliminations	Consolidated
Revenue from external sources	$ 984,253	$420,772	$350,650	$ (3,684)	$1,751,991
Income before provision for income taxes	$ 73,691	$ 32,755	$ 12,946		$ 119,392
Provision for income taxes	30,023	11,779	97		41,899
Net income	$ 43,668	$ 20,976	$ 12,849		$ 77,493
Identifiable assets	$1,238,276	$328,984	$239,273	$(198,426)	$1,608,107

17. Prior Year Comparatives

Certain prior year amounts have been reclassified to conform with the 1996 presentation.

Ten-Year Financial Summary

Years ended December 31 *(dollars in thousands expect per share data)*

	1996	1995	1994	1993
Revenue				
Revenue from Canadian operations	$1,008,000	981,285	876,381	707,957
Revenue from European operations	$ 458,093	420,056	339,936	260,536
Revenue from Chilean operations	$ 408,616	350,650	241,221	74,464
	$1,874,709	1,751,991	1,457,538	1,042,957
Income				
Before provision for income taxes	$ 128,503	119,392	95,488	35,895
As a percent of revenue	6.9%	6.8%	6.6%	3.4%
Net income	$ 88,184	77,493	61,421	22,271
As a percent of revenue	4.7%	4.4%	4.2%	2.1%
Earnings per common share				
Basic	$ 2.26	2.00	1.60	0.60
Fully diluted	$ 2.18	1.95	1.56	0.60
Dividends				
– total common share	$ 15,600	15,451	9,985	6,592
– per common share	$ 0.400	0.400	0.260	0.180
– payout ratio (% of net income)	17.7%	19.9%	16.3%	29.6%
Number of common shares outstanding (000's)	39,273	38,721	38,513	38,133
Revenue per employee	$ 441,940	428,674	374,978	283,875
Net income per employee	$ 20,788	18,961	15,802	6,062
Return on average shareholders' equity	16.0%	16.2%	14.8%	6.5%
Gross capital expenditures				
– total dollars	$ 43,132	25,812	16,641	13,752
– % of net income	48.9%	33.3%	27.1%	61.8%
Cash flow	$ 244,909	209,827	176,764	116,371
Cash flow per share	$ 6.24	5.42	4.59	3.05
Ratios				
– Asset turnover ratio	1.04	1.09	1.06	0.95
– Bank debt to equity	1.50:1	1.55:1	1.35:1	1.23:1
– Total debt to equity	1.97:1	2.11:1	1.99:1	1.80:1
– Bank debt to equity (excl. Finance Co.*)	.80:1	.84:1	.66:1	.58:1
Book value per common share	$ 15.18	13.09	11.65	10.00
Common share price				
– High	$ 29.15	23.25	24.13	21.75
– Low	$ 19.50	17.25	18.38	11.75
Number of employees				
– Canada	2,304	2,259	2,150	2,050
– Europe	930	887	876	865
– Chile	1,008	941	861	759
– Total	4,242	4,087	3,887	3,674

NOTE: Financial data has been restated to incorporate common share subdivisions occurring during the ten-year period and to reflect a retroactive change in accounting for revenue recognition for exchange components implemented in 1992.

* Assumes Finance Co. debt to equity ratio of 6:1. Bank debt to equity ratio has been restated to reflect a retroactive change in presenting customer rental-purchase contracts as finance assets.

	1992	1991	1990	1989	1988	1987
	576,063	583,542	727,321	542,083	406,744	373,760
	256,674	267,828	319,727	335,371	358,433	257,340
	–	–	–	–	–	–
	832,737	851,370	1,047,048	877,454	765,177	631,100
	1,728	3,139	43,889	67,885	61,587	40,128
	0.2%	0.4%	4.2%	7.7%	8.0%	6.4%
	2,878	4,612	30,283	42,197	37,067	26,601
	0.3%	0.5%	2.9%	4.8%	4.8%	4.2%
	0.06	0.10	0.88	1.40	1.30	1.08
	0.06	0.10	0.87	1.36	1.27	0.94
	5,042	6,844	15,286	11,826	8,868	5,827
	0.150	0.205	0.460	0.400	0.325	0.240
	175.2%	148.4%	50.5%	28%	23.9%	21.9%
	33,685	33,528	33,320	33,098	28,237	24,370
	281,425	260,757	289,480	240,267	311,808	274,869
	973	1,413	8,372	11,554	15,105	11,586
	0.9%	1.4%	9.8%	17.1%	22%	20.7%
	7,025	11,643	26,116	24,516	7,868	7,559
	244.1%	252.4%	86.2%	58.1%	21.2%	28.4%
	94,546	102,180	114,467	112,542	88,346	75,819
	3.02	3.05	3.44	3.40	3.13	3.11
	0.86	0.92	1.07	1.19	1.21	1.09
	1.59:1	1.46:1	1.63:1	1.41:1	1.53:1	1.99:1
	2.03:1	1.95:1	2.09:1	1.98:1	2.18:1	3.06:1
	.93:1	.85:1	1.18:1	.97:1	.92:1	1.33:1
	9.16	9.58	9.58	8.99	6.99	5.80
	14.50	15.63	17.00	15.75	12.13	11.94
	10.50	11.75	10.25	10.00	9.00	6.88
	2,026	2,142	2,531	2,563	1,489	1,385
	933	1,123	1,086	1,089	965	911
	–	–	–	–	–	–
	2,959	3,265	3,617	3,652	2,454	2,296

TWO-YEAR SUMMARY BY QUARTER
(unaudited)

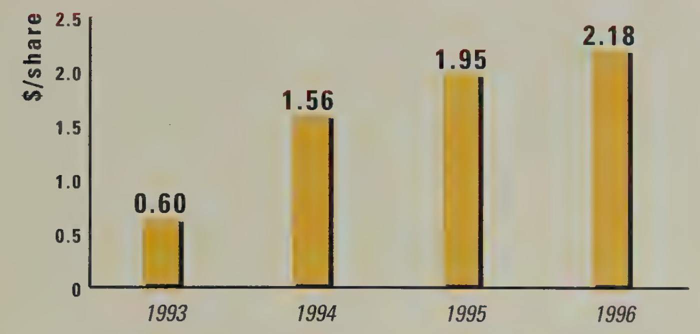
Fiscal Period	Qtr.	Revenue ($000's)	Net Income (1) ($000's)	Net Income Per Common Share Basic $	Net Income Per Common Share Fully Diluted $	Dividend $
1996						
	1	413,828	23,039	.59	.57	.10
	2	462,200	22,277	.58	.55	.10
	3	484,691	22,483	.57	.55	.10
	4	513,990	20,385	.52	.51	.10
		1,874,709	88,184	2.26	2.18	.40
1995						
	1	448,838	20,010	.52	.51	.10
	2	432,551	21,662	.56	.54	.10
	3	408,543	18,499	.48	.46	.10
	4	462,059	17,322	.44	.44	.10
		1,751,991	77,493	2.00	1.95	.40

Notes:

(1) In 1996, $7.5 million in non-recurring gains was realized from the sale of property in Europe.

MARKET VALUE — TORONTO STOCK EXCHANGE
(quarterly price range of common shares)

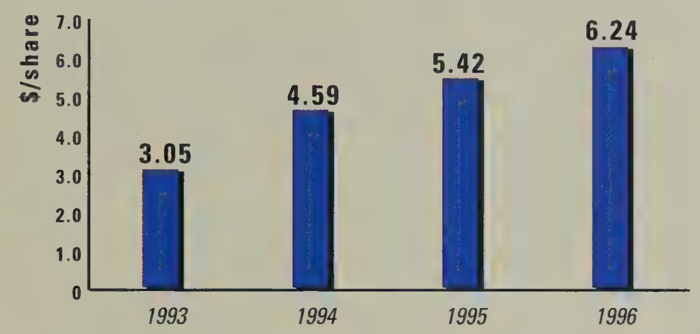
	1996 High $	1996 Low $	1996 Close $	1995 High $	1995 Low $	1995 Close $
Quarter Ending						
March 31	23.88	19.50	22.25	20.00	17.25	19.50
June 30	25.00	20.50	24.25	22.25	19.00	21.00
September 30	26.05	23.40	25.00	23.25	21.00	21.25
December 31	29.15	26.75	29.15	21.25	19.00	19.50



Earnings per Share

• Earnings per share on a fully diluted basis is calculated by dividing net income by the weighted average number of common shares outstanding during the year (assuming that all outstanding preferred shares were converted and all outstanding stock options were exercised at the beginning of the year).

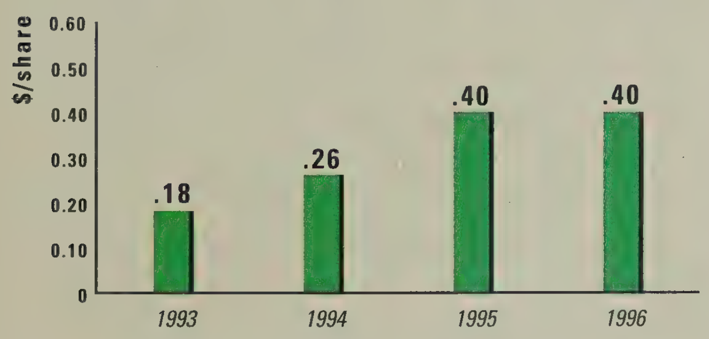
• In 1996, EPS (fully diluted) increased 11.8% compared with the previous year.



Cash Flow per Share

• Cash flow per share is calculated by dividing cash generated from operations (excluding changes in operating assets and liabilities) by the total number of shares outstanding at the end of the year.

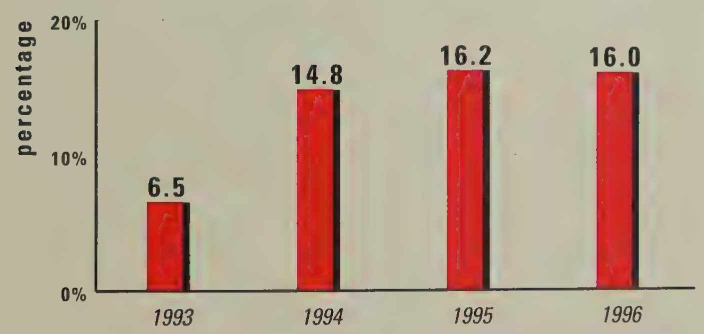
• In 1996, cash flow per share increased by 15.1% compared with the previous year.



Dividends per Share

• In setting the dividend payment per common share, the Board of Directors considers the Company's recent and projected earnings and its capital investment requirements.

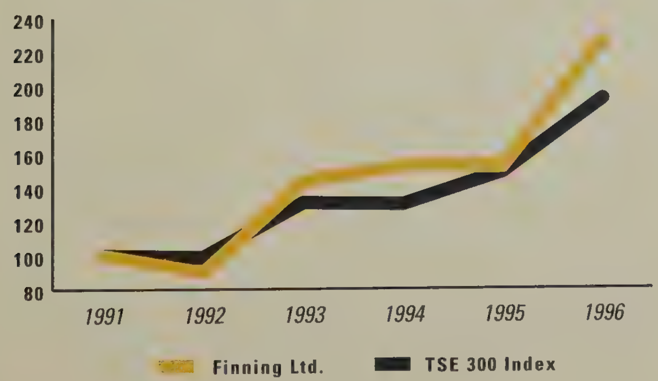
• In 1996, the common dividend was maintained at $0.40 per share for a total annual payout of $15.6 million.



Return on Shareholders' Equity

• The return on shareholders' equity is calculated by dividing net income by the average shareholders' equity during the year (including share capital [see note 10 on page 49], retained earnings and cumulative currency translation adjustments).

• In 1996, the return on shareholders' equity declined slightly to 16.0% from the previous year.



Total Shareholder Returns

• This graph compares the yearly percentage change in the Company's cumulative total return on its common shares (annual stock price change, plus dividends) with the cumulative total return of the TSE 300 index.

• Based on $100 invested in 1991, Finning's cumulative total return over the five-year period was $226 compared with $189 for the TSE 300 index.

Corporate Information

Board of Directors

M.N. Anderson, President,
Anderson & Associates,
Vancouver

R.B. Hougen, President,
Hougen's Group of Companies,
Whitehorse, Yukon

M.M. Koerner, President,
Canada Overseas Investments Limited,
Toronto

N.B. Lloyd, Managing Director,
Finning (UK) Ltd.,
Cannock, England

D.S. O'Sullivan, President,
O'Sullivan Resources,
Edmonton

J.F.R. Pascoe, Chairman,
Active Investments, PLC, and
Chairman, Hampshire Company, PLC,
Dorset, England

C.A. Pinette, President and
Chief Operating Officer, Lignum Ltd.,
Vancouver

J.F. Shepard, Chairman and Chief
Executive Officer, Finning Ltd.,
Vancouver

W.R. Wyman,
Corporate Director,
Vancouver

Human Resources and Compensation Committee

M.N. Anderson, Chairman
W.R. Wyman
D.S. O'Sullivan
J.F. Shepard

Audit Committee

M.M. Koerner, Chairman
R.B. Hougen
J.F.R. Pascoe
C.A. Pinette
W.R. Wyman

Environmental, Health and Safety Committee

C.A. Pinette, Chairman
D.S. O'Sullivan
J.F. Shepard

Governance Committee

W.R. Wyman, Chairman
M.N. Anderson
M.M. Koerner
C.A. Pinette

Officers

J.F. Shepard, Chairman and Chief Executive Officer

D.F. Edwards, President and Chief Operating Officer,
Canadian Operations

M.E. Hosier, Corporate Secretary and Treasurer

R.T. Mahler, Executive Vice President
and Chief Financial Officer

W.F. Merrell, Executive Vice President,
International Sales and Information Systems

L.E. Norlander, Corporate Manager,
Operations Review

D.W. Sprout, General Manager,
Edmonton Region

Executive and Management, Canada

D.F. Edwards, President and Chief Operating Officer
I.M. Reid, Vice President, Operations
S. Mallett, Vice President, Marketing
A.J. Allan, Manager, Victoria/Nanaimo
R.W. Baker, Manager, Prince George
A.W. Bone, Director of Quality
W.H. Chalmers, Industry Customer Service Manager
R.D. Clark, General Manager, Branch Operations, Interior Forestry
D.I. Climie, Director, Investor/Corporate Relations
V.E. Coyne, Manager, Corporate Communications
C.D. De Visser, Manager, International Sales
L.M. Egan, Manager, Langley
D.J. Fehr, General Manager, Branch Operations, Coastal Forestry
G.R. Finlay, Marketing Manager, Product Support
J.S. Foley, Manager, Kamloops
W.K. Huffman, General Manager, Used Equipment
K.D. Karr, Controller
T.C. Leavitt, Manager, Materials Handling
J.C. Leigh, Manager, Grande Prairie
S.H. Lilley, Industry Customer Service Manager
B.A. McDowell, General Manager, Edmonton Region
J.J. McNaughton, General Manager, Power Systems
K.P. Nordstrom, Manager, Calgary
M.D. Penn, General Manager, Branch Operations, Mining
S. Prince, General Manager, Customer Service
N. Riverin, Manager, Information Systems
J.J. Saunders, Industry Customer Service Manager
C.V. Schlenker, Manager, Sales Administration
K.D. Scott, General Manager, Marketing
R.B. Shapka, General Manager, Human Resources
R.P. Sheldon, General Manager, Product Support Development
G.D. Smythe, Manager, Finance and Credit
D.W. Sprout, General Manager, Edmonton Region
A.L. Wade, Industry Customer Service Manager
L.V. Walters, General Manager, Branch Operations, Construction

Executive and Management, Chile

C.A. Cederberg, President and Chief Executive Officer
J.A. Carthy, Vice President, Operations
E. Raffo, Vice President, Product Support
J.V. Amenabar, Division Manager, Used Equipment and Rentals
A. Barckhahn, General Service Manager
M.L. Duerr, Manager, Information Systems Projects
A. Gazitua, Industry Manager, Forestry
D. Godley, Manager, Finance and Administration
J. Godoy, Manager, Human Resources
C. Hartmann, Manager, Commercial Administration
M. Larenas, Industry Manager, Mining
S. Munoz, Regional Manager, Santiago
G. Ramirez, Industry Manager, Construction
S. Saavedra, Manager, Data Processing
R. Santander, Regional Manager, Antofagasta
J. Valdivia, Division Manager, Power Systems

Executive and Management, Europe

N.B. Lloyd, Managing Director
D. Collier, Director, Customer Operations
R. Hay, Associate Director, Marketing and Support
R.W. Netherway, Financial Controller
B. Auton, Materials Handling
M. Burgess, Power Systems
J.K. Greenshields, Scotland
R.J. Herrick, Customer and Market Development
R. Leishman, Parts and Service
R. MacCulloch, Quality and Training
J.O. Madigan, Poland
T.J. Sedgley, Information Systems
G.D. Smith, Human Resources

Shareholder Information

Stock Exchanges

The common shares of Finning Ltd. are listed on both the Toronto and Montreal stock exchanges. (Symbol: FTT)

Auditors

Arthur Andersen & Co., Chartered Accountants, Vancouver, Canada

Solicitors

Ladner Downs, Barristers and Solicitors, Vancouver, Canada

Corporate Head Office

555 Great Northern Way, Vancouver, Canada, V5T 1E2. (604) 872-4444

Annual Meeting

The Annual Meeting of the shareholders will be held at 11:00 a.m., April 25, 1997 at the Hyatt Regency Hotel, Vancouver.

Corporate Information

The Company prepares an Annual Information Form (AIF) which is filed with the securities commissions or similar bodies in all of the provinces of Canada. Copies of the AIF and Annual and Quarterly Reports are available to shareholders and other interested parties on request or can be accessed directly from Finning's home page on the Internet at http://www.finning.ca.

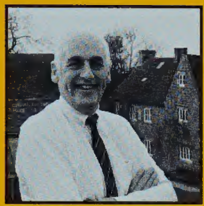
Registrar and Transfer Agent

Montreal Trust Company of Canada. To contact the stock transfer office nearest to your location, see table below.

Investor Inquiries

Inquiries relating to shares or dividends should be directed to the Company's Registrar and Transfer Agent. Inquiries relating to the Company's operating activities and financial information should be addressed to David Climie, Director, Investor/Corporate Relations, (604) 331-4885, Fax (604) 331-4852, e-mail: dclimie@finning.ca

MONTREAL TRUST STOCK TRANSFER LOCATIONS		
Montreal Trust Centre 510 Burrard St., Vancouver, B.C. V6C 3B9	Tel. (604) 661-9400	Fax: (604) 683-3694 c/s (604) 661-9480 op.
Western Gas Tower 530 - 8th Avenue S W, Calgary, AB T2P 3S8	Tel: (403) 267-6800	Fax: (403) 267-6529
1783 Hamilton Street, Suite 660 Regina, SK S4P 2B6	Tel: (306) 780-1300	Fax: (306) 780-1305
200 Portage Avenue Winnipeg, MN R3C 3X2	Tel: (204) 985-3048	Fax: (204) 985-3162
151 Front St W Toronto, ON M5J 2N1	Tel: (416) 981-9500	Fax: (416) 981-9800
Place Montreal Trust 1800 McGill College Ave., Montreal, QC H3A 3K9	Tel: (514) 982-7000	Fax: (514) 982-7580
1465 Brenton St Halifax, NS B3J 3S9	Tel: (902) 420-2211	Fax: (902) 420-3682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